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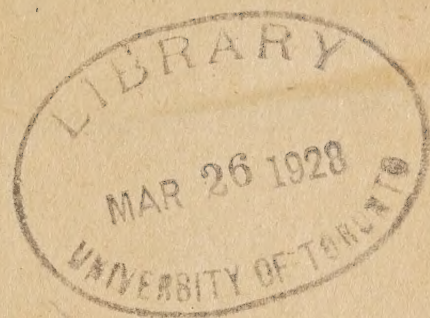


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SESSION 1928  
HOUSE OF COMMONS



SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1—MARCH 22, 1928

WITNESS:

Sir Henry Thornton

OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1928







MEMBERS OF THE COMMITTEE

W. T. GOODISON, Esq.,  
*Chairman*

MESSIEURS:

Bell, L. G. (St. Antoine),  
Cantley, T.,  
Chaplin, Hon. J. D.,  
Drayton, Hon. Sir H.,  
Duff, W.,  
Dunning, Hon. C. A.,  
Fiset, Sir E.,

Harris, J. H.,  
Jelliff, L. H.,  
Jenkins, R. H.,  
McLean, M. (Melfort),  
Milne, R.,  
Power, C. G.,  
Stevens, Hon. H. H.

E. L. MORRIS,  
*Clerk of the Committee.*



## ORDER OF REFERENCE

HOUSE OF COMMONS,

TUESDAY, 6th March, 1928.

Resolved,—That Standing Order 63 of the House of Commons, relating to appointment of the Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (St. Antoine), Cantley, Chaplin, Drayton, Duff, Dunning, Fiset, Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

WEDNESDAY, March 21, 1928.

Ordered,—That the preliminary statement of the Accounts of the Canadian National Railways for the year 1927, laid on the Table of the House on Tuesday, March 6, 1928, be referred to the Select Standing Committee on Railways and Shipping.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, March 22, 1928.

Ordered,—That 500 copies of the minutes of proceedings and evidence taken before the said Committee be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, March 22, 1928.

Ordered,—That the said Committee be given leave to sit while the House is in session.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, March 22, 1928.

Ordered,—That the Supplementary Estimates, 1927-28 (Railways and Canadian Government Merchant Marine, Limited), be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*



## REPORTS OF THE COMMITTEE

### FIRST REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their First Report. Your Committee recommend to the House that 500 copies of their minutes of proceedings and evidence be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

W. T. GOODISON, Esq.,  
*Chairman.*

### SECOND REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Second Report. Your Committee recommend that they be given leave to sit while the House is in session.

All of which is respectfully submitted.

W. T. GOODISON, Esq.,  
*Chairman.*



# MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,  
THURSDAY, March 22, 1928.

The Committee met at 11 o'clock a.m., the following members of the Committee present:

Messieurs: Bell (St. Antoine), Cantley, Drayton, Duff, Dunning, Fiset, Goodison, Jelliff, Jenkins, McLean (Melfort), Milne, Power, and Stevens—13.

The hour for opening the meeting having arrived Mr. Dunning said that he assumed the first business would be the election of a chairman.

Mr. McLean (Melfort) moved, seconded by Mr. Duff, that Mr. Goodison be Chairman of the Committee.

Motion put by the Clerk of the Committee and agreed to.

Mr. Goodison on being declared elected as Chairman assumed his place to preside over the meeting.

The Chairman suggested that he thought it would be advisable to have the matters of printing of the proceedings and evidence arranged at that time.

Mr. Duff moved, seconded by Mr. Cantley—

That the Committee recommend to the House that 500 copies of the minutes of proceedings and evidence taken, be printed from day to day or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto. Motion carried.

Some discussion followed with regard to asking for leave to sit while the House is in session. It was finally decided that it would be advisable to have leave granted, so that if necessary the Committee could sit at any hour without further reference to the House; accordingly,

Sir Eugene Fiset moved, seconded by Mr. Milne—

That the Committee recommend to the House that they be given leave to sit while the House is in session. Motion carried.

Sir Henry Thornton, and a number of his official staff were in attendance; also representatives from the Department of Railways.

The Chairman stated that it had been the usual procedure to hear from Sir Henry Thornton at the opening of the deliberations of the Committee, and have him give his statement. He would therefore have much pleasure on calling upon Sir Henry to give the Committee his statement.

Sir Henry Thornton thereupon proceeded to make his statement, which was followed by questions and general discussion. Several items were discussed and progress made as shown by evidence taken, which follows.

It being near one o'clock reference was made as to when the next meeting of the Committee would be held. Some of the members were in favour of meeting the next day, others, not until after the Easter adjournment. Finally the latter opinion prevailed, and on motion of Sir Henry Drayton it was decided to meet after the adjournment, at the call of the Chair.

Meeting adjourned to the call of the Chair.

E. L. MORRIS,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: The usual procedure is to hear from Sir Henry Thornton at the opening of our deliberations and have him give us his statement. I have much pleasure in calling upon Sir Henry (Thornton) to give us his statement.

Sir HENRY THORNTON: Mr. Chairman and gentlemen: you have before you a pamphlet which represents the financial and other operations of the railways for the past year. The figures included in that report speak for themselves and require very little further explanation.

I may say, however, that there are two things to which I would like to call attention. First, the figures which have been presented to you exclude the operations of the Central Vermont Railway which, because of a disastrous flood which occurred in the autumn of last year, is now in receivership. Secondly, there is likewise excluded from the main account of the Canadian National Railways the operations of the Eastern Lines, so called, which are included in a separate account and will be found in the pamphlet which you have before you. The Eastern Lines have only existed as a separate entity from July 1st.

The railway during the past year has experienced an increase of \$3,200,000, in round figures, in gross earnings, a good deal of which was in freight revenues. That represents a relatively small increase compared with the total amount, and was largely due to the fact that because of the early autumn and the late crop a good deal of the grain which ordinarily would move in the latter part of the year did not move, and that is moving this year, so we will be benefited to that extent this year.

Expenses increased about \$9,000,000. Practically all of that is found in the increased expenses chargeable to Maintenance of Way and Structures and the increased expenses chargeable to Transportation. A large factor in the increase in expenses was the wage increases which were granted during the year and which may be roughly said to approximate something like 7 per cent, and with respect to which some forecast was given when we met a year ago. The administration of the railway does not begrudge that increase, which we think was fair and reasonable, having regard to the general wage situation in Canada and in the United States, and the progressively improved showing which the railway has made for the past five years. However, it did affect the operations this year to an amount represented by about \$4,500,000.

The operations of the railway were further adversely affected by a reduction in freight rates which accounts for about \$1,500,000. With respect to that we have nothing to say other than that the proposed reductions were duly considered by the Railway Commission, were duly argued, all interested parties presented their points of view, and the Railway Commission has made a decision. We have nothing more to say—

Mr. CANTLEY: You are referring to the decreases apart from the Eastern section?

[Sir Henry Thornton.]



Sir HENRY THORNTON: Oh yes, quite. We did not include that—that is water over the dam, but those two items taken together somewhat more than account for a reduction of \$5,790,000 in net. Having regard to the increased wages and the decrease in gross revenue chargeable to Reduced Revenue, the showing may not be considered an unsatisfactory one.

Our situation from a financial point of view was almost precisely that of the Canadian Pacific Railway. They experienced a decrease of \$4,530,000, which curiously enough represents the same percentage of decrease that the Canadian National Railways experienced. Our operating ratio rose from 81.09 to 83.59, the C.P.R. rose from 77.3 to 80.35. In other words, the financial experiences of both roads were more or less the same.

Commencing on July 1st, the Maritime Freight Rates Act came into being and that part of the railway east of Levis was separated for financial purposes from the rest of the railway, and separate accounts have been kept in connection therewith. All of that will be found in the report which you have in your hand. That which relates to the Eastern Lines is printed in yellow.

I have nothing further to add, Mr. Chairman, but I venture this suggestion, which I think we followed last year. We have prepared a statement analyzing the different increases in expenses divided into the major sub-divisions of accounts. I suggest that each member of the Committee be furnished with a copy of that which will enable the members to examine it, after which anyone can ask any question they like. I think that will eliminate a lot of unnecessary discussion, and, at the same time, give the Committee complete information to intelligently discuss any question which may come to their mind. We have sufficient copies for the Committee, if that is agreeable. We followed that practice last year. Instead of going through all the accounts item by item and point by point, which involved a good deal of unnecessary time, a statement was given to each member of the Committee, and at a subsequent meeting questions were asked which occurred to the different members of the Committee who wanted illumination on any particular point. Is it the wish of the Committee that the same course be followed this year?

Mr. McLEAN (Melfort): It was very satisfactory last year, and I do not see why it should not work again this year.

Hon. Mr. STEVENS: It certainly will always help to have a summarized statement, Sir Henry (Thornton) and no doubt your staff has been able to summarize this, but it does not preclude any questions which anyone may desire to ask.

Sir HENRY THORNTON: No, far from it. We will welcome any questions any one likes to ask. For instance, without this a great many questions might be asked to which, if this analysis were looked over, an answer might be found.

Hon. Mr. DUNNING: I think they might be distributed. They contain extra information at all events.

The CHAIRMAN: Will you deal with the analysis now, Sir Henry (Thornton)?

Sir HENRY THORNTON: Just as the Committee wishes.

The CHAIRMAN: Members of the Committee, you have heard Sir Henry's (Thornton) general statement. If there are any questions arising out of that statement, perhaps you had better ask them now.

Hon. Mr. STEVENS: I find myself at once, Sir Henry (Thornton) faced with one slight difficulty. For instance, I have a desire to ask about this funded debt, but I am unable to find it in the abbreviated report.

Hon. Mr. DUNNING: That is only an operating analysis, Mr. Stevens.

Sir HENRY THORNTON: What you have here is an analysis of operating expenses. The larger booklet which you have gives all of the accounts, the capitalization, the income account, and everything else. This (indicating

[Sir Henry Thornton.]



analysis) is not designed to cover anything excepting the operating expenses for the year.

Hon. Mr. STEVENS: It does not deal with the balance sheet at all?

Sir HENRY THORNTON: You will find that in the larger pamphlet and no comments have been made upon that. It is left to each individual member to ask any question he likes. We could not conceivably cover all of the questions which would be asked and we thought it better to leave it to the members to look this (indicating analysis) over, and then ask any questions they choose.

Hon. Mr. DUNNING: The funded debt will arise as we go through the accounts. There are pages devoted to it, but we can ask questions about it now, or leave it until that matter is before the Committee.

Hon. Mr. STEVENS: It is on the second page of the main report?

Hon. Mr. DUNNING: The details are away back. You are looking at the summary, Mr. Stevens.

Sir HENRY THORNTON: He is referring to a statement which says "The Funded Debt shows an increase of \$55,900,000 made up as under." Is that it, Mr. Stevens?

Hon. Mr. STEVENS: Yes.

Hon. Mr. DUNNING: The details are on pages 14 to 21.

Mr. McLEAN (Melfort): Regarding the Central Vermont Railway which went into receivership last year; how much of it is owned by the Canadian National Railways—roughly, in percentage?

Sir HENRY THORNTON: About 67 per cent of the stock is owned by the Canadian National.

Mr. McLEAN (Melfort): You allowed this to go into receivership?

Sir HENRY THORNTON: We found it necessary to allow the railway to go into receivership, which, I may say, was an amicable arrangement as far as we were concerned. We did that because we did not think it fair for the Canadian National Railways to provide the necessary funds for the rehabilitation of that property without some consideration on the part of the minority shareholders. In other words, I did not see any reason why we should rebuild a property in which someone else had an interest without a receivership and without wiping out that stock. I may say in that connection that the receivership has worked out very satisfactorily, and has the goodwill of not only the people of Vermont but also the people of New England, and, incidentally, due largely to the way in which the matter was handled and a lot of very friendly feeling; a distinct traffic value was developed in New England and in Canada itself. There was no animosity or bad feeling of any kind in connection with the whole transaction, and it does afford an opportunity now to put that railway on a much more satisfactory basis insofar as our financial position is concerned, and to introduce certain economies which will, in the future improve the earning power of the Railways.

*By Hon. Mr. Stevens:*

Q. Under the receivership, would there be a public sale, public bidding?—

A. No. I think what would happen is this, that when the time comes for the receivership to be discharged, the Court will issue such an Order. What would be the procedure then, Mr. Ruel?

Mr. RUEL: We expect in that case that there will be a reorganization of the company, whereby we will take over the whole property and practically own the whole thing.

Sir HENRY THORNTON: The minority interest will disappear.

[Sir Henry Thornton.]



Hon. Mr. STEVENS: The only question is, whether or not, technically, you must not put it up for public bidding.

Sir HENRY THORNTON: I do not think we have to.

Mr. RUEL: It depends upon the Interstate Commerce Commission. If we can show a sufficiently good case for reorganization, and they approve, that is the end of it.

Hon. Mr. STEVENS: There is a possibility of them asking you to put it up for public sale? I do not want to raise questions that are embarrassing.

Sir HENRY THORNTON: At the same time, I want you to know exactly what the position is. The whole situation is that I believe the Vermont legislature are prepared to do anything with that property we ask them to do. Our relations are most cordial, and are most cordial with the Interstate Commerce Commission as far as the property is concerned.

Hon. Mr. DUNNING: Sir Henry gives us a general assurance that it is going well, and he does not feel like going into details which might be embarrassing in the development of negotiations.

Sir HENRY THORNTON: I would be glad to tell anyone anything he wants to know about it. But you can rest assured that the whole situation is in much more satisfactory shape to-day than it ever was, in so far as the Central Vermont is concerned.

*By Mr. Duff:*

Q. Where does the road begin and end?—A. It begins roughly at Rouse's Point and extends, partly by ownership and partly by leases of other lines, to New London, Connecticut, or St. John.

Q. By whom is the minority stock held?—A. A fair amount of it is held by ex-Governor Smith, the former president of the railway, who has been president for many years, and whose family really was responsible for the building of the railway originally. Then some of it is scattered around.

Q. Will those people be wiped out?—A. They will be.

Q. That is rather hard on the minority stockholder?—A. That we cannot help. If the Lord sends a flood and wipes out the property, I have not got any influence that would prevent it.

*By Mr. McLean (Melfort):*

Q. Their interest is really wiped out now?—A. Yes.

Q. By an act of Providence?—A. Yes.

*By Hon. Mr. Dunning:*

Q. It had very little value before that?—A. Very little value. The Canadian National Railways had been carrying the property, putting up any deficits in operating accounts, also in annual interest, for a good many years.

*By Mr. McLean (Melfort):*

Q. It is not a case of youth squeezing them out?—A. We are not squeezing them out. As a matter of fact the minority shareholders are perfectly willing. They have raised no question. They have gone with us into the receivership. It has been one of the most amicable arrangements I have ever had to deal with, having regard to the fact that it has had trouble mixed up with it. It will cost about \$5,000,000 to rehabilitate the road. Not all of that is rehabilitation, but in doing the rehabilitation there are certain other things that ought to be done, which we shall have to do. For instance, instead of renewing a light bridge in kind, a bridge which within a few years would have to be taken out anyway, that bridge has been renewed with a bridge of sufficient strength to take care of any probable increase in the weight of motive power. In the

[Sir Henry Thornton.]



renewal of rails, instead of putting back a light rail which was formerly on the railway, we will put back a heavier rail. We have not only rehabilitated the property, we have taken advantage of the opportunity to improve its operations.

Q. You have made a better one?—A. Yes. It would have been folly to have done otherwise.

*By Mr. Duff:*

Q. In view of the fact that the whole of the road is in the United States, have you considered the advisability of abandoning it altogether, instead of spending \$5,000,000?—A. No, I have not.

Q. Can you give us the reason why?—A. The Central Vermont Railway represents an important traffic link in the traffic of New England. There are three outlets for New England Traffic, or really three ways of handling traffic to and from New York; first, by way of the New York, New Haven and Hartford Railway, which now is physically connected with the Pennsylvania Railroad, across Long Island; secondly, across the Poughkeepsie Bridge; thirdly the northern route on the northern New England gateway, which is represented by our connection with the Central Vermont, and also a connection with the Canadian Pacific Railway has with other railways. For many years traffic moving via the northern gateway has been allowed a differential. That is because of the longer route and consequent slower time we were allowed to charge a somewhat lower freight rate than the other railways charged upon their shorter route. That was to compensate us for our disability. That was a concession which was made years and years ago, after a long struggle and it has remained in existence ever since.

*By Hon. Mr. Dunning:*

Q. That was made by the Interstate Commerce Commission?—A. It was made by the Interstate Commerce Commission. That northern gateway is very jealously protected by the New England shippers. They regard it as an important factor, an important competitive factor in the movement of traffic to and from New England to the west. Were we to abandon the Central Vermont, the probabilities are that that differential might be withdrawn. At any rate it certainly would affect the shippers in New England. Now, there is an additional reason, and to my mind a still more important one, namely, that all of the traffic that moves from points west of the Detroit River to New England passes through Canada. It increases the earning power of our men; it increases the net earnings of the Canadian National Railways. Therefore, we feel that the retention of the Central Vermont is a very essential factor. It also provides us with a new route from New England to Chicago and point west to Chicago.

Q. Entirely under our control?—A. Entirely under our control.

Q. It competes with nothing in Canada?—A. There is not a pound of freight that moves over the Central Vermont Railway which in any way unfavourably affects the position of any interest in Canada.

*By Mr. Duff:*

Q. In other words, is there any tonnage that comes from New London by ship and passes over the lines to Canada?—A. Yes, there is some tonnage that comes by boat from New York to New London and then from New London to Canada.

Q. Very much?—A. A fair amount. I cannot give you the figures off-hand. If it did not move that way, it would move by the Rutland or the Delaware and Hudson, or some of the other railways running to New York.

Mr. RUEL: The traffic of the Central Vermont is 80 per cent southbound, and very little of it northbound, only about 20 per cent. The 80 per cent comes from the western states, moves across Canada and down to New England

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points. It is the value of that 80 per cent which is sustaining us in what we want.

Sir HENRY THORNTON: That contributes also, a proportion to the Canadian National Railways.

*By Mr. Duff:*

Q. It is valuable traffic to the Canadian National?—A. It is very considerable indeed, Mr. Duff.

*By Mr. McLean (Melfort):*

Q. Where does it come into Canada?—A. At Sarnia. The freight we get which originates west of the Detroit River and which comes almost entirely through Sarnia, that freight if it is destined to points in the United States, moves through Montreal or through Canada down to the New England States, and down that way. The bulk of it moves via Montreal and across Canada, the long route.

Mr. McLEAN (Melfort): Quite a volume of traffic is in that 80 per cent.

Mr. RUEL: The Central Vermont could not live without that traffic.

Sir HENRY THORNTON: If that traffic were withdrawn, the Central Vermont would quit. It would not be worth a rap.

*By Mr. McLean (Melfort):*

Q. What would be the nature of that traffic, Sir Henry?—A. Well a good deal of it is perishable freight, citrus fruits from the Pacific coast to New England, automobiles,—quite a considerable amount of automobile traffic, dressed beef, pork products of different sorts, and general merchandise.

It may interest this Committee to know that, if I recall the figures correctly, we handled about \$50,000,000 in gross earnings on this traffic. I mentioned this last year. We handled about \$50,000,000 of traffic which originated at one point in the United States and terminated at another point.

*By Mr. Jelliff:*

Q. On the second page we have the Funded Debt, showing an increase of \$55,000,000?—A. \$56,000,000 in round figures.

Q. Yes. The retirements seem to be some \$27,000,000?—A. That is right.

Q. The Finance Minister's statement shows an issue of \$65,000,000. Perhaps when you come before us again you can explain the use of all these funds, so as to give the Committee an understanding of your statement and of the Finance Minister's statement?—A. That \$65,000,000 was made up of \$31,000,000 Capital Expenditures, and \$27,000,000 in round figures was for Debt Redemption. What you would like to know is what the \$31,000,000 was spent on?

Q. Yes, not so much the increase in the funded debt?—A. It was authorized of course, last year, and we explained at that time the purposes for which this money was to be used, but I can state it again if you like.

Q. I would be glad if you would do so?—A. The financial statement shows \$27,000,000 for Refunding Debt. What Mr. Jelliff wants to know is, what we did with the \$31,000,000 which was a direct increase in Capital. Is that it? You want to know what was done with that money?

Q. Exactly?—A. Well, \$9,894,000 or \$9,895,000 was for the general Budget requirements of last year, including various additions to the property, increased right-of-way weight of rail, ballast, renewal of bridges and steel, and a lot of things of that kind. I have not the details of that with me, but I can get it. That is what that covered. \$1,000,000 was spent on the 1924-1927 program. \$877,000 of that was spent on the Saskatchewan branch lines. \$2,280,000 was spent on the branch line program of 1927-1930; a total sum of about \$2,800,000

[Sir Henry Thornton.]



was spent on the Toronto Terminals and Toronto Viaduct construction, and then there was an item of \$14,239,000 which was spent on refunding the temporary 1926-1927 Budget requirements.

Q. That makes it about \$30,000,000?—A. That makes it \$31,000,000.

Q. The balance of \$27,300,000 was debt redemption; that makes \$57,000,000?—A. You have to add a discount of about \$2,000,000, and replace cash on hand. We have cash on hand, \$4,727,000.

*By Sir Eugene Fiset:*

Q. Possibly we could find out how this money was distributed, how it was distributed through divisions?—A. Yes, that was all gone over last year, General Fiset, but we can reproduce it this year.

Q. I would like to know how the money has been distributed, expended, by divisions, if possible?—A. It had better be by districts.

Q. I thought it would be easier by divisions. I would like to know what proportion came to the Ottawa Division.—A. You would like to know how much of it was spent in the Province of Quebec?

Q. Yes, if you like to put it in that way?—A. We can do it by Provinces, if you want that.

Q. I will be satisfied with it by divisions.—A. Tell us what you want, and we will try to get it for you.

Q. I want to know how the money has been distributed, by divisions if possible?—A. I will try to get it for you.

*By Mr. Cantley:*

Q. If you are going to give it for Quebec, better give it for the whole of the Eastern Provinces.—A. The items were all gone over last year and approved, but we can furnish any information which the Committee would like to have. If you will tell the Chairman what you would like me to produce, I will get it.

*By Hon. Mr. Stevens:*

Q. The Railway has a system of dividing its business up into certain divisions or districts?—A. Yes.

Q. Operated in that way for economy and service?—A. Yes. You have to remember this too, that the amount of money you spend has not any particular relation to provinces, that is to say, you may spend x dollars this year in the Province of Quebec, and three years hence you may not spend any in Quebec at all, but spend y dollars in Alberta. You cannot spend in each province, exactly the same amount of money. A railway does not lend itself to that kind of treatment. You have to treat each part separately.

*By Sir Eugene Fiset:*

Q. In the Eastern Division we are often faced with a deficit. What expenditure you make in that Eastern Division results in a yearly deficit. I would like to know, what would the amount of \$9,000,000 include. Take fences, for instance; I would like to know how much is spent, not only in Quebec but on the whole system?—A. You will find that in the accounts. You are talking about capital alone, not expenses.

*By Hon. Mr. Stevens:*

Q. Your capital expenditure does not affect your deficit?—A. No.

Hon. Mr. DUNNING: Would we not get along better, if we took this page by page, and as these various pages come forward, we can ask for any further information we may desire. The General's point can be met in the statement now before us when we reach it. Perhaps we would get along better in that way.

[Sir Henry Thornton.]



Sir HENRY THORNTON: I would like to remark here that the amount spent on Capital Account is not necessarily to be regarded, in fact, not at all to be regarded as money wasted, because you may spend money on Capital Account which will make a very material reduction in your operating expenses. The only rule is that if you borrow your money at 5 per cent, the return you get from that expenditure to reduce your operating costs must exceed 5 per cent, otherwise there is no good borrowing it.

*By Mr. Cantley:*

Q. A short time ago you mentioned the amount spent on the 1927-1930 program. Will you be good enough to restate the amount; it has escaped me?—A. \$2,286,230.

Q. What proportion of that total amount will be expended?

Hon. Mr. DUNNING: \$12,000,000 is the total on branch lines.

Sir HENRY THORNTON: This particular branch line program is \$7,000,000.

Hon. Mr. DUNNING: There must be something else there.

Mr. HENRY: That includes the Toronto viaduct.

Sir HENRY THORNTON: That is about 30 per cent. \$2,286,000 is 30 per cent of the total.

*By Mr. Bell (St Antoine):*

Q. Before we start on these figures which refer to the Canadian National Railways System, from Page 18 on, we have schedules comprising the Canadian National system, and where they are marked with an asterisk it says, "The accounts of companies indicated (with an asterisk) are taken up in the system Income Account as "Separately Operated Properties." The point I am trying to get at is this, what does really comprise the Canadian National Railways? When we are discussing figures regarding the Canadian National Railways System, are all these companies included?—A. May I ask what you are referring to?

Q. From page 18 on of the main report.—A. You want to know when you discuss the Canadian National Railways, what physical properties are included in that?

Q. Yes. On page 1 of the report we have Operating Revenues, and you go on discussing what operating revenue is. Then you have on page 21 Accounts indicated by a certain mark, and you say that they are taken up in the system.

Sir HENRY THORNTON: Mr. Cooper can answer that question.

Mr. COOPER: The companies appearing as separately operated properties do not go into the System Operating Revenue and Expense Account. They go into Income Account all right. On page 4 you will find "Separately Operated Properties—Loss." They are taken up in the Income Account but not in the Operating Account.

Q. How is that?—A. There is really no relation, sir, between the N.S. & T. Electric Railway and the Canadian National Steam Railways.

Sir HENRY THORNTON: Take the Montreal and Southern Counties Railway. That is operated as a separate property, a separate corporate entity. You are familiar with that, and I am using it as an example. The gross earnings and expenses of that railway are not included in the operating account of the Canadian National Railways but the result whether a loss, or deficit, would be included in the Income Account.

Hon. Mr. DUNNING: Item 512, page 4, of the big accounts, shows it, Mr. Bell.

Hon. Mr. STEVENS: You gather into your Income Account the dividends or returns from these separate companies?

[Sir Henry Thornton.]



Sir HENRY THORNTON: Yes.

Q. Marked with an asterisk?—A. Yes.

Q. The others are included in your operating system?—A. That is correct.

*By Mr. Bell (St. Antoine):*

Q. One further question upon that point. There are other companies outside of these companies altogether that belong, or that I presume the Canadian National Railways are interested in. Take for instance, the Government Merchant Marine, the Hudson Bay Railway, or your branch to Rouyn; are they in these accounts?—A. The Canadian Government Merchant Marine is in a separate report and a set of accounts is kept for the Canadian Government Merchant Marine, which this Committee will deal with, as in past years, as a separate matter. The Hudson Bay Railway does not enter into the accounts of the Canadian National Railway. It is operated by the Canadian National Railways as the agent of the Government.

Q. How do you mean, as an agent of the Government?—A. We simply run the property, as you would employ an agent. If there is any profit, we give it to the Government, and if there is a loss, the Government stands it.

Major BELL: The amount is in the departmental estimates.

Mr. DUFF: The reason for that is that it is not finished.

Sir HENRY THORNTON: It is under construction.

*By Mr. McLean (Melfort):*

Q. The Canadian National Railways has no money invested in the Hudson Bay Railway at all?

Sir HENRY THORNTON: No.

Q. Before leaving this, I would like to ask what expense, if any, has been entailed by the separation of the Eastern Lines from the system as a whole, in the matter of keeping accounts?

Mr. COOPER: A considerable expense.

Sir HENRY THORNTON: Did we ever make any estimate of it?

Mr. COOPER: No, sir.

Sir HENRY THORNTON: Could you make an estimate of it, without taking up too much time?

Mr. COOPER: From \$10,000 to \$15,000 accounting expenses.

Sir HENRY THORNTON: For the year?

Mr. COOPER: For the six months.

Sir HENRY THORNTON: Mr. Cooper estimates that it would be somewhere in the neighbourhood of \$10,000 to \$15,000 additional expense for the last six months.

Mr. McLEAN (Melfort): Around \$30,000 a year would be the gross.

Sir HENRY THORNTON: That would be the figure he would put on it from his knowledge of the situation. Mr. Cooper points out that in starting a thing of this kind you would naturally have more trouble and expense than in subsequent years, after it gets going.

Mr. McLEAN (Melfort): But that would be the gross extra expenditure, so far as your staff is able to say at the moment.

Sir HENRY THORNTON: That goes at the rate of something like twenty or \$30,000 a year, but it is not expected that that will continue.

Mr. McLEAN (Melfort): It should decrease?

Sir HENRY THORNTON: Yes, it will decrease in quantity until it reaches a irreducible minimum.

[Sir Henry Thornton.]



The CHAIRMAN: Are there any further questions to ask before we proceed with the accounts?

Hon. Mr. STEVENS: I agree with the Minister that it would be very much preferable to have some order in our line of inquiry.

The CHAIRMAN: We will find all these items in the report, and they can be taken up as we come to them.

Hon. Mr. STEVENS: Our report will read very much like a hodge podge if we do not have some order about it.

Mr. CANTLEY: When will we have the returns of the Merchant Marine?

Sir HENRY THORNTON: They are ready at any time. They will be here on Monday.

The CHAIRMAN: Will the printed statement be ready on Monday?

Sir HENRY THORNTON: No, I do not think so, but we will have enough data to go on with.

Hon. Mr. DUNNING: I have found it rather confusing to the members of the House to distinguish between this preliminary statement and the final statement, and if we have enough work to go on with on these accounts, I would prefer not to table anything connected with the Merchant Marine until I can table the final statement.

Sir HENRY THORNTON: It is all ready; it is just a matter of printing it. I can answer that question definitely to-morrow, but I think it will be ready on Monday.

Hon. Mr. DUNNING: When will the printed statement of the Canadian National accounts be ready?

Mr. COOPER: At the beginning of April.

Hon. Mr. DUNNING: Some curious member of the House is asking me every day when I will table the printed reports.

Mr. COOPER: I do not think there will be any difference between this report and the printed one.

Sir HENRY THORNTON: This report lacks only the auditors' certificate. We have never found that the auditors varied our figures. There may be a small variation of a dollar or two, but as a matter of fact we have never found that the auditors' examination varied the figures which our own auditors put forward, so you are perfectly safe in taking this (indicating the report) as far as the accuracy of the figures is concerned.

The CHAIRMAN: We will turn to the operating expenses and go through them item by item.

Sir HENRY THORNTON: I will ask Mr. Henry to read this. I am just getting over an attack of tonsilitis, and my throat is not in a talking condition.

Mr. HENRY: Do you want me to read it all through?

Sir HENRY THORNTON: I think perhaps that would be the best way. Mr. Henry will read this, and anyone who has any questions to ask may interrupt him at any point; ask any question and we will try to answer it.

Mr. HENRY: In presenting the accounts of the Canadian National Railways last year, those of the Central Vermont were included with the Canadian National. Owing to the disastrous floods which occurred in the fall of 1927, the Central Vermont was placed in Receivership on December 12, 1927, and consequently its accounts have been excluded from those of the Canadian National Railways system.

As contemplated by the Maritime Freight Rates Act 1927, the income accounts of the lines east of Levis and Diamond Junction have been withdrawn from Canadian National system accounts as from July 1, 1927, and are shown separately.

[Sir. Henry Thornton.]



The accounts should be understood as excluding the Central Vermont for the year and the Eastern Lines from July 1. To afford a comparison, the 1926 accounts have been restated on the same basis. Canadian National figures will be given first and then the Eastern lines for six months from July 1 to December 31, 1927.

The operating expenses of the Canadian National Railways are classified in accordance with the accounting rules of the Dominion Bureau of Statistics, and are divided into 140 primary expense accounts, these being grouped under 7 main heads, with self-descriptive heads as follows:—

(1) Maintenance of Way and Structures.....	40	primary accounts
(2) Maintenance of Equipment.....	24	"
(3) Traffic.....	8	"
(4) Transportation.....	50	"
(5) Miscellaneous.....	5	"
(6) General.....	12	"
(7) Transportation for Investment Credit.....	1	"
Total.....	140	"

The comparison of expenses under these heads for the years 1926-1927 follows:—

Item	1926		1927		Decrease or Increase	
	\$	cts.	\$	cts.	\$	cts.
Maintenance of Way and Structures.....	43,028,428	62	46,075,178	06	Inc.	3,046,749 44
Maintenance of Equipment.....	47,321,602	60	47,447,253	16	Inc.	125,650 56
Traffic.....	6,440,087	63	7,124,864	67	Inc.	684,777 04
Transportation.....	100,603,158	02	105,166,760	58	Inc.	4,563,602 56
Miscellaneous.....	2,121,607	17	2,414,842	34	Inc.	293,235 17
General.....	6,970,244	08	7,226,199	60	Inc.	255,955 52
Transportation for Investment Credit.....	1,012,478	24	993,350	79	Dec.	19,127 45
Total.....	205,472,649	88	214,461,747	62	Inc.	8,989,097 74

The expenses may be further divided, for purposes of comparison, into Employees' Compensation and Other Expenses. This comparison follows:—

Employees' Compensation Wages Item	1926		1927		Decrease or Increase	
	\$		\$		\$	
Maintenance of Way and Structures.....	24,417,161		25,593,701		Inc.	1,176,540
Maintenance of Equipment.....	25,803,542		25,112,659		Dec.	690,883
Traffic.....	3,039,066		3,229,950		Inc.	290,884
Transportation.....	64,984,478		68,454,966		Inc.	3,470,488
Miscellaneous.....	1,065,740		1,193,973		Inc.	128,233
General.....	4,553,209		4,563,305		Inc.	10,096
Total.....	123,863,196		128,248,554		Inc.	4,385,357

Material and Miscellaneous Item	1926		1927		Decrease or Increase	
	\$		\$		\$	
Maintenance of Way and Structures.....	18,611,268		20,481,477		Inc.	1,870,209
Maintenance of Equipment.....	21,518,060		22,334,594		Inc.	816,534
Traffic.....	3,401,022		3,794,915		Inc.	393,893
Transportation.....	34,606,202		35,718,444		Inc.	1,112,242
Miscellaneous.....	1,055,867		1,220,869		Inc.	165,002
General.....	2,417,035		2,662,895		Inc.	245,860
	81,809,454		86,213,194			4,603,741

[Sir Henry Thornton.]







Superintendence is increased \$49,000 due to rates of pay while the balance of the increase is due to a change in accounting, transferring items of superintendence from other accounts to this account.

The increase in other track material follows the increase in rail.

Station and Office Building account increased \$34,000 due to increased rates of pay and \$75,000 for new train shed at St. John, N.B.

Increase in Shops and Engine Houses account is made up of heavy retirements in connection with Toronto Terminals \$167,000; expensive repairs to Battle Creek shop \$54,000 and increased rates of pay \$15,000.

The reduction in removing snow, ice and sand was due to less severe weather conditions.

There was an increase of 213,978 treated ties and a decrease of 278,609 untreated ties. Treated ties decreased in price 5 cents and untreated decreased 4 cents, resulting in a decrease of \$223,000. There was an increase in switch ties of \$74,000.

The effect of various main factors on the total expense is:

Changes in Price of Material and Miscellaneous:

Ties.....	Dec.	\$	162,000
Rails.....	Inc.		493,000
Other Material and Miscellaneous.....	Dec.		373,000
	Dec.	\$	42,000

Changes due to variation in quantity of material used:

Ties.....	Inc.	\$	12,000
Rails.....	Inc.		275,000
Other Material and Miscellaneous.....	Inc.		1,625,000
	Inc.		1,912,000

Changes due to Employees Compensation:

Rates of Pay.....	Inc.	\$	904,000
Hours worked.....	Dec.		22,000
Accountancy items redistributed.....	Inc.		294,000
	Inc.		\$1,176,000
	Inc.		\$3,047,000

The increase in quantity of labour and material, which might be expected to vary in any degree with traffic, amounts to \$1,890,000 and after allowance for decreased expense due to more favourable weather conditions and accidents, the comparative increase of expense is \$2,399,000 as compared with which the increased traffic amounting to 1.55 per cent would indicate an increase for labour and material amounting to \$301,000.

Sir HENRY THORNTON: Might we stop there and ask the committee if, under the general heading of "Expenses chargeable to Maintenance of Way and Structures", there is any criticism to be made, or any questions to be asked? In that connection I would like to say that, as has already been indicated, the increased expenses are due partly to increased wages and partly to a higher standard of maintenance, which we felt it wise to adopt last year. For example, there has been a good deal of complaint with respect to our gravel ballast between Montreal and Chicago, and we have pursued a somewhat faster program of renewing that in stone than would have been the case had there been no complaint. In other cases the necessity for higher speeds of our passenger trains has required a heavier rail, and certain of our wooden trestles are beginning to go and they have been renewed in steel, and while a proportion of that is chargeable to capital, it still carries with it a charge to expenses which we cannot escape; so that, broadly speaking, I should say to you that the increase of Maintenance of Way expense has been due to increased wages and the necessity, which we regarded as essential, of an improved standard of



maintenance of the railway. Now, if that explanation is not satisfactory, and anybody wishes to ask any questions, I think it would be wise to clear up the maintenance of way and structures before we go on with the other items.

Mr. CANTLEY: Roughly speaking, what mileage have you in regard to these wooden trestles on the western lines?

Sir HENRY THORNTON: In the western region?

Mr. CANTLEY: Yes.

Mr. HENRY: Offhand, I think it is about 90 miles. Probably Mr. Blaiklock can answer that.

Mr. BLAIKLOCK: Seventy-eight miles.

Mr. CANTLEY: What replacements or betterments did you make last year under that account?

Sir HENRY DRAYTON: Formerly we had a detailed statement put in. Why not do that this year?

Sir HENRY THORNTON: We have sometimes noted a question and brought the answer on the following day. It is not always possible to immediately turn to an account and get the information asked for. We will make a note of Colonel Cantley's question and bring in the answer to-morrow.

Mr. McLEAN (Melfort): In replacing wooden trestles with steel or concrete structures, what do you charge to Capital account?

Sir HENRY THORNTON: You charge the expense or cost of renewing the trestle in kind. You charge to Capital the difference between that and whatever you may put in.

Sir EUGENE Fiset: Does that general statement include the eastern division?

Sir HENRY THORNTON: No.

Sir EUGENE Fiset: I thought it did because it mentioned St. John, New Brunswick, a moment ago.

Sir HENRY THORNTON: That only related to the first six months, General. The division of accounts did not go into effect until the 1st of July.

Mr. CANTLEY: What proportion of the line from Moncton to Halifax is double tracked?

Mr. BLAIKLOCK: About 23 miles, as far as my recollection goes.

Mr. CANTLEY: What is your policy in connection with the double tracking of that line?

Sir HENRY THORNTON: I do not think that that has been subjected to any examination to determine the policy. What usually happens on a railway is that when the traffic reaches a point or gives indication of reaching a point where it cannot be handled economically or satisfactorily on a single track, you then consider how much double track you want to put in. Sometimes you postpone the double tracking by putting in automatic signals. It all depends on the volume of traffic.

Mr. CANTLEY: My point is this: at various times in the past you have carried out double tracking projects, and I presume the road has some definite program in regard to that.

Sir HENRY THORNTON: It has not been brought to my attention that there is any necessity for double tracking between Moncton and Halifax.

Mr. CANTLEY: But it does not go on in a haphazard way. There must be some definite program.

Sir HENRY THORNTON: The problem does not arise until the necessity appears, and I know of no necessity for double tracking the railway between Moncton and Halifax.

[Sir Henry Thornton.]



Mr. CANTLEY: There must have been some necessity or you would not have double tracked certain portions of it.

Sir HENRY THORNTON: Yes, that necessity arose and was met by double tracking, as far as double tracking was considered necessary.

Mr. CANTLEY: I think the question of getting the full benefit of the double track between those two large divisional points should be taken into account. Has the management any clear and definite understanding in their own mind as to what they will do, and the rate of progress at which they will carry it out?

Sir HENRY THORNTON: There is no necessity at the moment for continuing the double track between Moncton and Halifax.

Sir EUGENE Fiset: Is there between Moncton and Levis?

Sir HENRY THORNTON: No. What happens is that you have a single track railway from A to B, and are handling a certain amount of traffic. When that traffic increases and gets to the point where you find you must add a certain number of miles of double track, you then consider the problem. Usually you commence by double tracking on some grade where the movement is slow, and that is sufficient for a certain number of years, and then the traffic catches up with that and you find necessity for extending the double track. How fast you extend it depends entirely on how fast your traffic moves. You cannot begin to-day and lay down a program for double tracking between Moncton and Halifax which will be consummated five or ten or twenty years hence.

Mr. DUFF: Unless you give the C.P.R. running rights into Halifax.

Sir HENRY THORNTON: That we do not intend to do.

Mr. DUFF: But if you have to, you will develop the situation as it arises.

Sir HENRY THORNTON: Should such a catastrophe overtake us, we will deal with it at the moment.

Hon. Mr. STEVENS: I want to ask one question in regard to charges due to employees' compensation. The full item is \$1,176,000, but included in that is an accountancy item redistributed of \$294,000. Will you explain that?

Mr. COOPER: The division superintendent's staff on the western region and the southern and northern Ontario districts were formerly charged under 371, Transportation Superintendence. In 1927 we divided that fifty-fifty between this account and 371.

Hon. Mr. STEVENS: That is not an increase in wages?

Sir HENRY THORNTON: No, just a redistribution.

Hon. Mr. STEVENS: Transposing a charge from one account to another.

Hon. Mr. DUNNING: It shows a decrease in the other account.

Sir HENRY THORNTON: May I take it, subject to getting an answer to Colonel Cantley's question, that the items chargeable to Maintenance of Way and Structures are passed.

Mr. CANTLEY: Just one question. In regard to the Victoria bridge; I see an item "widening the roadway, \$136,000." What is that?

Sir HENRY THORNTON: What happened was this: the Victoria bridge, as you know, carries a very large automobile traffic. The roadbed was worn out and had to be renewed. The roadbed is pretty narrow for two vehicles to pass, and we found that in renewing the roadbed——

Mr. CANTLEY: You are referring to highway traffic?

Sir HENRY THORNTON: Yes. We found we could add 18 inches. Now, 18 inches may not seem to you like very much, but it means a good deal to two passing vehicles; therefore we thought it wise to get that additional 18 inches even if it cost us some money.

[Sir Henry Thornton.]



Mr. CANTLEY: You are perfectly satisfied as to the safety of the bridge?

Sir HENRY THORNTON: Yes.

Mr. RUEL: The situation was that the bridge was dangerous for highway traffic.

Sir HENRY THORNTON: Not the structure itself, but the roadbed.

Mr. RUEL: It was too narrow. If a man were crossing the bridge and some reckless driver came along the other way and wanted to pass there was always a danger of a sideswipe; so we widened the highway.

Sir EUGENE Fiset: Can you give us any idea of the amount of relaying of track which has been done?

Mr. HENRY: In the year 1926-27.

Sir HENRY THORNTON: Somebody will make a note of it.

*By Mr. Jelliff:*

Q. There is an increase in the quantity of rails. Have you anything here as to the new construction on the line?—A. Yes.

Hon. Mr. DUNNING: That is in the accounts.

*By Mr. McLean (Melfort):*

Q. Before leaving this item, the Victoria bridge, does the railway contribute the whole of the \$136,000?—A. That is part of the expense of maintaining the bridge.

Q. Part of the expense of maintaining the bridge for highway traffic?—A. Yes. The Victoria Bridge which crosses the St. Lawrence at Montreal carries the railway, the Montreal and Southern Counties tram cars, that company being owned by the Canadian National, and there is a highway bridge which carries vehicular traffic and on that we charge certain tolls.

Q. It is a toll bridge?—A. It is a toll bridge.

Sir EUGENE Fiset: On this item, do you say that it does not include the pay of the staff, that it is simply bridge charges.

Mr. HENRY: That is where it is chargeable, to Maintenance of Way.

Sir HENRY THORNTON: It is chargeable to Maintenance of Way.

Mr. POULIOT: Mr. Chairman, will you allow members of the House who are not members of this Committee to ask questions?

The CHAIRMAN: At another meeting, Mr. Pouliot.

Hon. Mr. DUNNING: If the question has relation to Maintenance of Way, there is no reason why Mr. Pouliot should not ask it now.

The CHAIRMAN: When we opened the meeting we decided to allow questions to be asked as long as too much time was not taken up. Are there any more questions on Maintenance of Way? If not, we will start with Maintenance of Equipment.

Mr. HENRY: On page 4 we have:

#### *Maintenance of Equipment.*

The comparative situation with respect to condition of equipment at the end of the year as compared with the previous year is:

[Sir Henry Thornton.]



	Serviceable 1927	Serviceable 1926
Freight cars.....	92.9	93.7
Locomotives.....	82.9	81.9
Maintenance of Equipment Expense, 1927.....		\$47,447,253
Maintenance of Equipment Expense, 1926.....		47,321,603
	Increase	\$ 125,650
Principal Increases—		
Steam Locomotives—Retirements.....		\$ 345,763
Steam Locomotives—Repairs.....		340,751
Freight Train Cars—Retirements.....		222,585
Depreciation (U.S. Lines).....		115,246
Principal Decreases—		
Freight Train Cars—Repairs.....		\$ 759,556
Work Equipment—Repairs.....		216,139
Passenger Train Cars—Retirements.....		118,555

The increase in steam locomotive repairs is made up partly of increase due to changes in rates of pay and the balance is due to more maintenance work performed.

There was an increase of six locomotives retired as compared with the previous year.

There was a decrease of 388 in freight train cars retired and not replaced, but as the book value was greater there was an increased expense.

Equipment depreciation account on the U.S. lines increased in the year due to two new car ferries \$54,000; additional locomotives and cars \$57,000.

The reduction in freight train car repairs has been made notwithstanding the effect of increased rates of pay. The decrease is due partly to the larger use of reclaimed material, partly to increased efficiency and partly to less work done.

Increased rates of pay caused an increase on account of work equipment repairs. Charges to investment account for repairs effected, operated to produce the decrease in total amount of the account.

Passenger train car retirements were decreased by seven units less than previous year, retired and not replaced.

The effect of various main factors on the total expense is:

Changes in price of materials.....	Dec.	\$ 759,000
Changes in quantity of materials and miscellaneous.....	Inc.	1,575,000
Changes in Employees Compensation—		
Due to rates of pay.....	Inc.	\$ 362,000
Due to hours worked.....	Dec.	1,033,000
Accountancy items due to readjustment.....	Dec.	20,000
		Dec. 691,000
Total.....	Inc.	\$ 126,000

There is a decrease in quantity of labour and material amounting to \$542,000 and after allowing for accidents the decrease is \$565,000, whereas an increase of \$591,000 might have been expected in view of the relative traffic.

Sir HENRY THORNTON: Are there any questions any one would like to ask regarding Maintenance of Equipment Expenses?

*By Mr. Milne:*

Q. There is an increase in depreciation, not on our own lines?—A. We do not charge depreciation on Canadian lines. We retire, and charge the retirement into expenses direct.

*By Sir Eugene Fiset:*

Q. May I ask if you have in your program for 1924-1925 a certain number of cars especially for the Eastern Division; 300 of those cars were to be pre-

[Sir Henry Thornton.]



pared for service during those years, and you were to give us the proportion that had been provided for a former year. Is it possible to get that statement?—A. We will get that statement for you by to-morrow, if necessary.

*By Mr. Milne:*

Q. Have you taken into consideration at all the protection of stock shipped in these slatted stock cars in cold weather?—A. That question has come up, but I am not in a position to say much about it. There has been a good deal of discussion with regard to the treatment of stock in transmission on railways particularly. The practice we have followed is that generally followed by railways on the North-American Continent. There has been discussion and some criticism of late, especially in the public press, and we are having an examination made of the whole position. I cannot answer your question off-hand, except to say that it is being given immediate attention.

*By Sir Eugene Fiset:*

Q. While you are preparing this statement, is it possible to know what distribution has been made of these cars in the provinces of New Brunswick, and Nova Scotia and also in the Province of Quebec?—A. Yes, sir, we can get that.

*By Mr. L. Bell (St. Antoine):*

Q. Under Maintenance of Equipment are locomotives being purchased in Canada?—A. All of our locomotives required for use in Canada, are purchased in Canada. All locomotives which are used in Canada, or intended to be used in Canada, are purchased in Canada.

Q. Does that apply to other equipment also?—A. It applies to everything the company buys, that is, assuming that it can be found here. There may be some small items—I do not remember what they might be—there might be something required that we cannot get in Canada. But you may take it that everything which the company uses in Canada is bought in Canada.

*By Mr. Milne:*

Q. How do prices for locomotives purchased in Canada compare with the United States?—A. They are higher.

Q. Approximately how much?—A. I should say that if we bought a locomotive in the United States for use in Canada, and paid the duty on it to bring it into Canada, it would probably be somewhat more costly than if we bought it in Canada; but if you leave the duty out of consideration, I should say that locomotives can be bought more cheaply in the United States than in Canada.

*By Mr. McLean (Melfort):*

Q. But for use on the American lines, leaving them in the country of origin, what would be the approximate difference between locomotives of the same type in the two countries, leaving aside the questions of duty and importation altogether?—A. We can get exact figures for that. I would not like to answer it off-hand.

Q. I would like to know the difference in the cost of railroading in the two countries.—A. You want to know the cost of locomotives, generally speaking, in Canada, as compared with the United States? We can get that.

Mr. MILNE: Better get the same information in regard to box cars.

*By Mr. McLean (Melfort):*

Q. You might as well give it to us on box cars and regular train equipment.—A. I will get it on motive power and rolling stock.

[Sir Henry Thornton.]



*By Mr. Jenkins:*

Q. May I ask a question about the Pullman Company. Have they any jurisdiction over your lines?—A. We operate Pullman cars on through routes, running into the United States, for instance, between Canadian points and Chicago, and between Canadian points and New York and Boston.

Q. I presume the Pullman Company get a royalty on that business?—A. No, they furnish the cars. I can give you the details of the contract, if you would like to have them.

Q. They furnish the cars?—A. Yes, and maintain them and operate them, but we haul them.

*By Hon. Mr. Stevens:*

Q. They get a royalty?—A. The public buy the tickets, and the company gets the gross revenue.

*By Mr. Jenkins:*

Q. It would be more profitable to operate them yourself?—A. I am not sure about that. We operate our own sleeping cars between the principal points in Canada. The C.P.R. also have done that. It has been the general practice on both railways. I should want to retain that privilege. I mean if I were asked to sell to the Pullman Company, or let them take over our services, I should feel that we ought to refuse.

*By Mr. Milne:*

Q. The Pullman Company is not a subsidiary Company?—A. It is an independent company, operating sleeping and dining cars generally, on the North American continent, but chiefly in United States.

*By Mr. McLean (Melfort):*

Q. They operate on your lines only where they cross the border?—A. Where they cross the border. That too, is a heritage which came to us. As a matter of fact the Pullman Company developed in a perfectly legitimate way and filled a legitimate want in the early days of railroading. The Pullman Company in the first place, had the patents on sleeping cars, and in the second place they had the capital to provide sleeping cars, which most of the railways some decades ago in the United States did not have, and in the third place their sleeping cars could travel freely over different railways. For instance, they could run sleeping cars from Chicago to San Francisco, which might pass over three or four different railways, while if one railway owned its own sleeping cars, unless they came to some understanding on exchange of equipment there would have to be an exchange of passengers at the boundaries of each railway. So that an understanding was brought into existence with the Pullman Company and that has existed.

*By Mr. Jenkins:*

Q. They have given a satisfactory service?—

Hon. Mr. DUNNING: Not any better than our own.

*By Mr. McLean (Melfort):*

Q. There is no competition?—A. There is no competition.

Q. To say the least of it, it is no better than your own?—A. I would say that our own is the best.

Mr. CANTLEY: From the beginning of the Intercolonial there was an understanding with the Pullman Company which lasted for about twenty years. Some years ago the Intercolonial took over the cars of the Pullman Company and operated their own.

[Sir Henry Thornton.]



*By Mr. Bell (St. Antoine):*

Q. One question with regard to Maintenance of Way. Ties and coal; what is the policy of the company? Is it to buy by tender?—A. Practically everything the company buys is bought on tender.

*By Mr. Duff:*

Q. Open competition?—A. Open competition. When you come to the purchase of ties, you cannot always pursue entirely the policy of open tenders, but we fix a certain price for ties, which we think is fair, and which is generally as satisfactory as anything can be. Then we try to apportion the ties in accordance with the ability of the producers to produce.

*By Mr. Cantley:*

Q. You beat the poor contractor down to the lowest?—A. Our business is, not to waste money, Colonel Cantley.

*By Mr. Bell (St. Antoine):*

Q. What about loss by accidents?—A. Well, after all, the Lord is a very valuable ally. You may at any time have one accident which might cost a million dollars. It is queer the way the thing goes.

*By Mr. Cantley:*

Q. Any decrease is largely due to the improvement of the roadbed?—A. As a railway improves its roadbed and becomes more efficient, automatically its accidents are likely to decrease.

MR. CANTLEY: I think you can very well take credit for it.

HON. MR. DUNNING: Not altogether.

SIR HENRY THORNTON: Wait a minute Colonel. You have been giving us too much credit. The increase in accidents was only 23. It is the difference between 542 and 565. However, I am using every effort.

THE CHAIRMAN: Are there any further questions, about maintenance of equipment? If not, we will pass on.

*By Mr. McLean (Melfort):*

Q. We were talking about ties a moment ago; how many do you use throughout the Dominion?

SIR HENRY THORNTON: How many do we use on the railway as a whole?

Q. Yes?—A. I will tell you in two minutes. 7,697,000 last year.

Q. You did not find any difficulty in tie purchasing last year because the price was reduced?—A. No, we did not find any trouble. There may be a local trouble here and there, but generally speaking, there is no trouble.

*By Mr. Milne:*

Q. Do you find it economical to treat your ties with creosote?—A. Yes, we are advancing as rapidly as we can in the employment of treated ties for two reasons; first, because it is economical, second because it tends to conserve the timber supply of the Dominion.

*By Sir Eugene Fiset:*

Q. To what extent did you use hardwood ties last year?—A. I will have to get that. Do you want to know how many hardwood ties we used?

Q. It does not matter.—A. I think maybe we can get that for you.

Q. You did give us the information last year?—A. Last year we used 2,197,000 treated ties, and 5,500,000 untreated ties.

Q. Were those hardwood?—A. No, they would not be hardwood. I have the answer to your question.

[Sir Henry Thornton.]



Mr. HENRY: Hardwood ties purchased last year amounted to 1,459,000.

Sir EUGENE Fiset: Out of 7,000,000?

Mr. HENRY: Out of 7,000,000.

Hon. Mr. DUNNING: None of the treated ties are hardwood?

Sir HENRY THORNTON: Yes.

Sir EUGENE Fiset: May I ask if you have used both birch and maple.

Mr. HENRY: We have used both birch and maple.

Sir EUGENE Fiset: There is a demand for the information.

Mr. HENRY: We used last year, soft wood ties—those are purchased ties—you can take it as approximately 5,000,000 jack pine, 428,000 British Columbia fir, 973,000 hemlock, 600,000 cedar, 400,000 tamarack, 16,000 spruce, 831 poplar, 7,182 pondasa pine, making a total of soft wood ties of 7,480,000.

Of hardwood ties we used: chestnut 20,500, white oak 117,000, treated red oak 112,500, treated hardwood 112,500, red oak 111,000, beech 219,400, birch 515,300, maple 251,000, making a total of 1,459,000, or a grand total of 8,939,000.

Mr. POWER: What proportion did you buy from dealers, and what proportion from settlers?

Sir HENRY THORNTON: We can get that if you would like to have it.

Hon. Mr. DUNNING: There are those who produce the ties as settlers and those who produce the ties as dealers.

Mr. HENRY: Settlers direct is what you have in mind.

*By Mr. Jelliff:*

Q. What is the difference in the life of a tie, as between a hardwood and a softwood tie?

Sir HENRY THORNTON: The life of a tie depends partly on the ravages of nature and partly upon the traffic. In a very general way, you can say that a hardwood tie will last ten years under an average amount of traffic.

*By Sir Eugene Fiset:*

Q. And a treated tie?—A. A treated tie is good for something like eighteen years, maybe more. Sometimes you get such heavy traffic conditions that the tie wears out mechanically before it rots out.

*By Mr. Jelliff:*

Q. What is the difference in the price?—A. The average cost, Mr. Jelliff, of treated ties last year was \$1.46, and the average cost of an untreated tie was 72 cents.

*By Mr. Milne:*

Q. Do the ties last longer when treated?—A. Yes.

Q. How much longer?—A. I should say it would add a couple of years, because there is less moisture around the base of the tie, and less inducement to rot.

*By Sir Eugene Fiset:*

Q. When preparing the statement for Colonel Power is it possible to obtain the approximate number bought from settlers through your local station agents?—A. I do not know whether we can get that or not. We can try, and see what we can do.

*By Mr. McLean (Melfort):*

Q. Is that method followed?—A. Which method?

[Sir Henry Thornton.]



Q. Of buying through your local agents?—A. I do not think it is. Some one spoke of that, but I thought he was wrong although I did not happen to know positively. I doubt whether we are buying any ties through local station agents.

Q. Last year you gave every possible encouragement to the settlers to deal directly with you?—A. We tried to.

Q. Can you tell us what machinery you utilized to bring that about?—A. We will have to get that for you by to-morrow.

*By Mr. Duff:*

Q. Is there a man named Grant who comes from Nova Scotia to buy ties?—A. Mr. MacLaren is our agent.

The Committee adjourned at 1 p.m. to meet at the call of the Chair.



















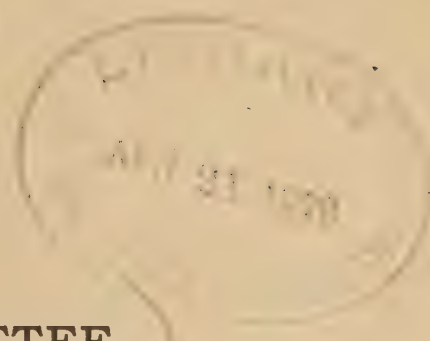
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SESSION 1928

HOUSE OF COMMONS



SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2—APRIL 17, 1928

WITNESS:

Sir Henry Thornton

OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1928



## REPORTS OF THE COMMITTEE

### THIRD REPORT

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Third Report:—

Your Committee, to which was referred Bill No. 204, An Act respecting The Toronto Terminals Railway Company, have taken the said Bill under consideration and have agreed to report the same without amendment.

All of which is respectfully submitted.

W. T. GOODISON,  
*Chairman.*



# MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 11 o'clock, a.m., the Chairman, Mr. Goodison, presiding.

The following members of the Committee were present:—

*Messieurs:* Cantley, Chaplin (Hon. J. D.), Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Jelliff, Jenkins, McLean (Melfort), Milne and Stevens (Hon. H. H.)—11.

Sir Henry Thornton, President, and a number of the official staff of the Canadian National Railways were in attendance; also several representatives of the Department of Railways and Canals.

The Chairman announced that the first matter to be taken up would be Bill No. 204, An Act respecting The Toronto Terminals Railway Company, which had been referred to the Committee for consideration.

The said Bill was considered, adopted without amendment and ordered to be reported.

A statement comprising questions that had been asked at the previous meeting, held on March 22, with detailed answers to the various questions was then submitted by the Chairman, discussed again by the Committee and ordered to be incorporated in the evidence.

The Analysis of Accounts of the Canadian National Railways, which was under consideration at the previous meeting of the Committee, was again taken up at page 5, where interrupted at the adjournment of the Committee.

Sir Henry Thornton as witness, the Committee considered the following subjects and items, in successive order:—

Maintenance of Equipment, Traffic, Transportation, Miscellaneous, General, Transportation for Investment Cr.

*Eastern Lines*, increases and decreases for years 1926-27, on which there was general discussion.

The Annual Report of the Canadian National Railways System was then placed before the Committee, and under the heading of Railway Operating Revenues and Expenses, the following items were discussed in detail, viz: Items 101 to 152, pages 16 and 30. Reference was again made to *Eastern Lines statement*, page 3, under the heading of Railway Operating Revenues and Expenses, Items 101 to 143 were discussed, in order to conclude the items under this heading.

It being about one o'clock the question of the next meeting arose. After discussion, Mr. Dunning moved, that the Committee meet again to-morrow, Wednesday, at 11 o'clock, a.m., and then decide as to further meetings.

Carried.

The Committee adjourned.







## MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: Gentlemen, the first thing we will take up this morning is Bill 204, "An Act respecting the Toronto Terminal Railway Company." Copies of this Bill will be distributed to you shortly, but I will read this to you now.

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Subsection three of section 15A of chapter one hundred and seventy of the statutes of 1906, as enacted by section one of chapter twenty-eight of the statutes of 1925, is hereby repealed and the following substituted therefor:—

(3) The Canadian National Railway Company may issue, in addition to the security issue authorized by subsection two of this section, bonds, debentures or other securities to an amount not exceeding ten million five hundred thousand dollars to be used,—

(a) In the purchase at par of securities issued by the Company not exceeding, together with the securities purchased under the provisions of subsection two of this section, one-half of the total securities to be issued by the Company for the purpose of its undertaking;

(b) In defraying the cost of portions of the said Viaduct and Works, which will not be included in the works to be owned by the Company and will have to be constructed for or by the Canadian National Railway Company itself, and in defraying the cost of other railway facilities necessitated by or incidental to the construction of the said viaduct and works.

Hon. Mr. DUNNING: Mr. Chairman, it will be remembered that in the House of Commons I moved that this Bill be referred to this committee in order that the officers of the company might be available to give such information as the committee might desire with respect to the Toronto terminal project, and with respect to the increase in authority contemplated by the Bill. That was acceded to on the ground that inasmuch as the evidence of this Committee is recorded, information which is here obtained from the officers will be available to the membership of the House of Commons generally. Really, the whole Toronto terminal matter is before this Committee for examination of the officers in any way they may see fit, and probably, to start the ball rolling, the first question might properly be "Why the increase from \$7,500,000 to \$10,500,000?"

Sir HENRY THORNTON: The amount of money asked for is for certain works which are ancillary to the construction of the Toronto terminal, and which have grown out of the Toronto viaduct proposition. For example, it was necessary to construct for the exclusive use of the Canadian National Railways an engine house, and a number of other things of that character have been necessary and have been occasioned by the Toronto viaduct and the new Toronto terminal.

Mr. JELLIFF: What was the cost of the new engine house?

Mr. BROWN: The engine house and coach facilities, about \$2,000,000.

[Sir Henry Thornton.]



Sir HENRY THORNTON: In addition to the engine house there was an additional express house and express facilities; there were offices for the Canadian National Railways, which represented \$300,000. The first item, "express facilities," amounted to \$346,000. There was also a power house, which was not originally included, which represented \$665,000. That totals \$1,306,000. In the adjustment of our relations with the city, the city was unable to bear as large a proportion of some of the expenses as we expected, and that had to be cared for. There was also a difference of about \$1,000,000 in regard to land. We expected to get about \$3,000,000 for certain lands we were going to sell, but we only got \$2,000,000. Briefly, this represents necessitous work which had to be done as growing out of the construction of the Toronto terminal.

Mr. JELLIFF: Work not contemplated in your original arrangement?

Sir HENRY THORNTON: Partly not contemplated, and partly under-estimated.

Hon. Mr. STEVENS: Does this \$10,500,000 represent the total investment of the National Railways in the Toronto viaduct?

Sir HENRY THORNTON: No, the total cost of the Toronto viaduct—

Mr. BROWN: It will be about \$17,500,000.

Hon. Mr. STEVENS: The National Railways' participation will be about \$17,500,000?

Sir HENRY THORNTON: Eventually, yes.

Hon. Mr. STEVENS: Including the station?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: All the terminals?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: And the viaduct?

Sir HENRY THORNTON: Yes.

Mr. MILNE: Has the C.P.R. a like amount invested as compared with the C.N.R.?

Sir HENRY THORNTON: I should think approximately, yes.

The CHAIRMAN: The proportion between the two you would say is about half and half?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Is the seventeen millions in addition to the ten and a half?

Sir HENRY THORNTON: No, the seventeen million is the total.

The CHAIRMAN: The ten and a half million dollars is included in the seventeen?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): Did the city agree to pay a larger proportion than they are now paying?

Sir HENRY THORNTON: I do not think they did.

Mr. McLEAN: You just expected they would pay more.

Sir HENRY THORNTON: Yes. Of course, when a project of this sort first starts, you have to make certain assumptions. Some of these assumptions involve the cost of the additional land that will be required; some of them involve the credit that you may get for land that can be diverted to other purposes, and not needed for the viaduct; and another supposition that you have to make is what the division of the cost will be between the railways on

[Sir Henry Thornton.]



the one hand and the city on the other. Those have to be estimated originally to the best of your ability. They are difficult to estimate, and sometimes they do not turn out as you expect them to.

Mr. McLEAN (Melfort): You had no agreement with the city that they would carry a certain aggregate amount or a certain percentage of the cost?

Sir HENRY THORNTON: We had a general agreement with the city.

Hon. Mr. DUNNING: You got the authority here to negotiate the agreement.

Sir HENRY THORNTON: Yes, that is right.

Hon. Mr. DUNNING: And the agreement was negotiated upon certain assumptions?

Sir HENRY THORNTON: Yes.

Mr. McLEAN: If the agreement was negotiated as Sir Henry states, on the assumption that they would pay so much, was there an aggregate or a percentage of the amount agreed upon? That is what I should like to understand. Was there such an agreement?

Sir HENRY THORNTON: There was an agreement with the city as to about how much they were to contribute, and then as we proceeded with the work, a whole lot of unforeseen things developed in connection with it, and with our negotiations with the city.

Mr. McLEAN: Are they paying what they agreed to pay?

Sir HENRY THORNTON: Yes, the arrangement with the city is perfectly amicable, and there is no contention.

Sir EUGENE Fiset: Does the same agreement exist between the C.P.R., and the city also?

Sir HENRY THORNTON: I suppose they have an agreement with respect to matters which relate to themselves, and of-course, they participate with us in our joint understanding with the city.

Sir EUGENE Fiset: That is a tri-partite agreement?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Where is the other seven millions provided for, Sir Henry?

Sir HENRY THORNTON: The additional? That, we will bring up next year.

Hon. Mr. STEVENS: It is not yet asked for?

Sir HENRY THORNTON: No, we are merely asking for what is necessary to carry us through this year. And, we will be able to see a little more clearly next year what we want to do, but this merely carries the work until the next session of parliament.

Mr. CANTLEY: This is not final then?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: The total cost is now estimated at seventeen millions, and I was asking where the balance was to come from?

Sir HENRY THORNTON: That will have to come next year.

Hon. Mr. STEVENS: You are trusting to the good nature of Parliament?

Sir HENRY THORNTON: We feel that we can always rely upon the fraternal influence of a Parliament with respect to the Canadian National.

Hon. Mr. STEVENS: It is a good thing to lean on all right.

[Sir Henry Thornton.]



Sir HENRY THORNTON: I may say this, Mr. Stevens: If we come to Parliament and have a clear case, and can prove our case, we feel that we will get fair treatment. If we cannot prove our case, we do not deserve it.

Hon. Mr. STEVENS: I asked the question because I thought it had already been voted or was coming from some other source, but the real answer I take it is, that you will come back next year, or at some future time, for the balance of the vote, whatever it may be.

Sir HENRY THORNTON: Precisely.

Hon. Mr. DUNNING: But, the seventeen million dollars includes not only the costs of the Toronto Terminal Company, but all the costs of the C.N.R., of works necessary to fit in outside the area covered by the terminal, to fit in with the terminal scheme.

Sir HENRY THORNTON: That is so.

Hon. Mr. DUNNING: And that might be provided for by this legislation, or the regular budget?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: In so far as it is covered by the area outside the terminal scheme.

Mr. CANTLEY: I presume you are including the replacement of buildings or sheds you had somewhere else?

Sir HENRY THORNTON: Well, we had an engine shed; it would be perhaps stretching a point to call it an engine shed, it had got into pretty bad shape, and it had to be rebuilt.

Mr. CANTLEY: The shed would belong to the former Grand Trunk?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: That seventeen and a half million also includes the original shed and station cost which was invested before this agreement?

Sir HENRY THORNTON: Yes, that represents our total costs, partly from the joint terminal arrangement, and partly for certain constructions which were forced by the new terminal.

Hon. Mr. DUNNING: I thought Mr. Stevens was under the impression that you contemplated coming back for seven and a half millions more?

Sir HENRY THORNTON: No, I did not get that.

Mr. McLEAN (Melfort): I suppose most of this money asked for now has been already expended under the previous legislation.

Sir HENRY THORNTON: I would ask Mr. Brown whether we have spent it all or not?

Mr. BROWN: No, there is still a balance unexpended.

Mr. McLEAN: Of the seven and a half million?

Sir HENRY THORNTON: Yes.

Mr. McLEAN: But the great bulk is spent, of course?

Sir HENRY THORNTON: As a matter of fact, to make a short-cut to it, something is due to the Toronto terminal itself; it is partly expenditures which necessarily were forced by the construction of the terminals. For instance, we had to have a new engine house. Well, we have to have a new engine house, we could not get away from that; there must be some place to put the engines.

Mr. DUFF: I move that Clause 1 carry.

Mr. JELLIFF: I would like to ask Sir Henry if he can tell us approximately when the work will be completed?

[Sir Henry Thornton.]



Sir HENRY THORNTON: Mr. Brown can perhaps answer that better than anyone else.

Mr. BROWN: In about two years more.

The CHAIRMAN: Is Clause 1 carried?

Carried.

The CHAIRMAN: Shall we report the Bill?

Some Hon. MEMBERS: Yes.

Sir HENRY THORNTON: Mr. Chairman, there were certain questions which were asked at the last meeting of the Committee, and we have these answers here. Will you give those answers, Mr. Henry, please? You have prepared them.

Mr. HENRY: Colonel Cantley asked:

What portion of the line from Moncton to Halifax is double tracked?

The answer is:

	Miles
Halifax to Windsor Junction.. . . . .	15.93
Truro to Belmont . . . . .	7.69
Springhill Junction to Maccan.. . . . .	8.85
Painsec Junction to Moncton order board.. . . . .	7.08
Total mileage double track.. . . . .	39.55

Sir Eugene Fiset asked:

What is the program for equipping cars for potato service and providing them with heaters? How many of these cars have been conditioned and equipped with heaters? What is the distribution of these cars in Nova Scotia, New Brunswick and Quebec?

Answer:

Eastman Heaters.—188 cars. A charge, in addition to the freight rate, is made for the use of these cars and  $1\frac{1}{2}$  cents per mile for heating. These cars have heaters permanently installed.

Lined Potato Cars.—196 cars. A charge, in addition to the freight rate, is made for the use of these cars, and they are heated entirely by shippers.

Refrigerators.—50 cars, specially lined on orders of the Board of Railway Commissioners, for use from points in the Maritime Provinces to Atlantic Ports. A charge, in addition to the freight rate, is made for the use of these cars, plus a special charge for their use, as authorized by the Board. If heating is requested, a charge of  $1\frac{1}{2}$  cents per mile is made in addition. Heating is accomplished by the use of portable heaters.

Refrigerators.—2,880 cars, for which a charge, in addition to the freight rate, is made, also a charge of  $1\frac{1}{2}$  cents per mile for heating if same is requested by shippers. This is also accomplished by portable heaters.

With the exception of the 50 specially lined refrigerator cars, all cars are distributed over the whole potato loading territory.

Sir EUGENE Fiset: May I have a copy of that?

Sir HENRY THORNTON: It will be published in the minutes.

Sir EUGENE Fiset: I would like a special copy.

Sir HENRY THORNTON: See that General Fiset gets a copy for his own use.

[Sir Henry Thornton.]



Mr. HENRY: Colonel Cantley asked:

What is the mileage of wooden trestles on the Western Region, and what replacements or betterments were made last year?

We have given a statement here of the whole system. This is rather a long statement. Do you want it by regions, or simply the system situations?

Mr. CANTLEY: If you have it there, I will get it later; if you will put it in the minutes.

Sir HENRY THORNTON: Then we will hand it in to be published in the minutes.

[Sir Henry Thornton.]



Answer:

Timber Bridges filled, replaced with steel or concrete; Bridges renewed in kind and built new during 1927:—

(Please note the answer is for all Regions)

Region	Eliminated				Replaced in Timber		New Timber Bridges Built				Timber Bridges in Existence December 31, 1927			
	By Filling		By Steel or Concrete Bridges				By Oper. Dept.		By Construction Dept. (A)					
	No.	Lin. Ft.	No.	Lin. Ft.	No.	Lin. Ft.	No.	Lin. Ft.	No.	Lin. Ft.	No.	Lin. Ft.	Miles	
Western.....	60	13,652	2	274	75	8,208	12	910	8	1,015	317,904	2,390		60.2
Central.....	16	1,186	6	1,726	10	972	4	580	32	10,214	57,533	496		10.9
Grand Trunk Western.....	11	404	.....	.....	9	856	1	80	.....	.....	19,205	188		3.6
Atlantic.....	6	2,104	.....	164	10	926	3	(B) 206	.....	.....	20,479	115		3.9
Total.....	93	17,346	8	2,164	104	10,962	20	1,776	40	11,229	415,121	3,189		78.6

NOTE A.—The bridges in this column are those located on lines built by Construction Dept. and taken over by Operation Dept. during 1927.

NOTE B.—Three bridges built 1921-1924 but included in statement for 1927 for first time.

[Sir Henry Thornton.]



Mr. HENRY: Mr. McLean (Melfort) asked:

What is the cost of locomotives and cars, passenger and freight, of the same type, in the United States, compared with the cost in Canada, leaving aside the question of duty?

Here is a statement which perhaps might go in to the minutes.

Sir HENRY THORNTON: Does Mr. McLean want that read?

Mr. McLEAN: As long as it goes into the record, it will be all right.

Answer:

COMPARISON of cost of locomotives and cars, passenger and freight, of the same Type purchased in the United States, as compared with similar equipment purchased in Canada, exclusive of Canadian import duty and sales tax.

*Locomotives:*

- 1924: 21 Type 4-8-2 Passenger, Canada, \$75,000 each, C.L. Co.
- 1925: 5 Type 4-8-2 Passenger, U.S.A., \$56,850 each, B.L. Co.
- 1927: 40 Type 4-8-4 Passenger, Canada, \$94,250 each, C.L. Co. & M.L. Co.
- 1927: 12 Type 4-8-4 Passenger, U.S.A., \$83,500 each, A.L. Co.

Increase in cost, 1924 to 1927, due to increased capacity of locomotive and improvements in design.

*Freight Cars:*

- 1927: 750 40-Ton steel frame box auto cars, Canada, \$2,800 each, N.S.C. & E.C.C.
- 1927: 1,000 40-Ton steel frame box auto cars, U.S.A., \$2,180 each, P.S. Co.

*Passenger Cars:*

- 1919: 80 Steel colonist cars, Canada, \$32,500 each, C.C. & F. Co.
- 1919: 50 Steel colonist cars, U.S.A., \$24,000 each, P.S. Co.
- 1928: 50 Steel colonist cars, Canada, \$35,000 each, C.C. & F. and N.S.C.
- 1928: 50 Steel colonist cars, U.S.A., \$26,000 each, P.S. Co.

*Work Cars:*

- 1927: 100 Convertible ballast cars, U.S.A., \$2,600 each, P.S. Co.
- 1928: 300 Convertible ballast cars, Canada, \$3,150 each, C.C. & F. and N.S.C.

Increase in prices 1919 to 1928 principally due to increased price of lumber and improvements in brake equipment and interior equipment, and fittings.

Mr. HENRY: Major Power asked what proportion of the ties were bought from dealers and what proportion from settlers, during 1927.

Hon. Mr. STEVENS: What are the totals of that, just roughly?

Mr. HENRY: The totals were: Manufactured ties 8,835,457; from settlers: 104,811.

Hon. Mr. STEVENS: The statement goes in, I understand?

Sir HENRY THORNTON: If it will be all right, that may go in.



Answer:

	Manufacturers ties	Settlers ties	Total
<i>Atlantic Region—</i>			
Prince Edward Island.. . . .	4,488	.....	4,488
Nova Scotia.. . . .	433,350	3,658	437,008
New Brunswick.. . . .	604,133	5,874	610,007
Quebec.. . . .	10,668	176	10,844
Total.. . . .	1,052,639	9,708	1,062,347
<i>Central Region—</i>			
Quebec.. . . .	506,185	3,067	509,252
Ontario.. . . .	1,776,911	7,228	1,784,139
West Virginia.. . . .	20,226	.....	20,226
Total.. . . .	2,303,322	10,295	2,313,617
<i>Western Region—</i>			
Ontario.. . . .	999,753	117	999,870
Manitoba.. . . .	38,095	717	38,812
Minnesota.. . . .	125,450	.....	125,450
Saskatchewan.. . . .	349,217	768	349,985
Alberta.. . . .	1,255,878	12,188	1,268,066
British Columbia.. . . .	1,966,103	71,018	2,037,121
Total.. . . .	4,734,496	84,808	4,819,304
G. T. Western.. . . .	745,000	.....	745,000
Grand total.. . . .	8,835,457	104,811	8,940,268

Mr. HENRY: Sir Eugene Fiset asked:

How many ties were purchased from settlers in 1927 which were bought through local station agents?

The answer is:

No ties are bought through local station agents. It would not be practicable to do this because the station agent has no means of inspecting ties, and any ties which would be offered would usually be located a long way from where a station agent could supervise this work. We have a staff of tie inspectors who inspect all the ties we buy.

We accept all the ties offered to us direct by settlers. Copy of our advertisement which appears continuously for two weeks in all important newspapers throughout the country at locations where persons would have any interest in our tie business is given.

Mr. McLEAN: Would a question be in order at this point?

Sir HENRY THORNTON: May I just ask General Fiset if it is sufficient to put a copy of that in.

Sir EUGENE Fiset: That will be quite sufficient. It does not answer my question, but that does not matter.

Sir HENRY THORNTON: We will try to answer it; if we have not answered it we are sorry.

Sir EUGENE Fiset: That is all right.

Mr. McLEAN: Will a question on ties be in order at this point?

Sir HENRY THORNTON: That is for the Chairman to say. We are in the hands of the Committee. We will try to answer everything put to us.

Mr. McLEAN: The answer reads says that you accept ties from settlers whenever offered or as many as are offered. Just what machinery have you for accepting these ties?

Sir HENRY THORNTON: Mr. Vaughan will perhaps explain that to the Committee.

[Sir Henry Thornton.]



Mr. VAUGHAN: We have inspectors all through the country, Mr. McLean, and if a settler advises us, or one of our chief inspectors, or regional tie agents, that he has ties to offer us, we immediately send out a man to inspect them, and we accept them there.

Mr. McLEAN (Melfort): How do you fix a price on them?

Mr. VAUGHAN: We fix a definite price in every region for settlers' ties.

Mr. McLEAN: What is the difference between settlers' and contractors' ties?

Mr. VAUGHAN: It amounts to about six cents a tie; six to six and a half. I do not just remember off-hand.

Mr. McLEAN: But a settler can write direct to one of your special agents?

Mr. VAUGHAN: Yes, we never refuse to take a tie direct from a settler.

Mr. McLEAN: And your inspector goes and inspects the ties?

Mr. VAUGHAN: Yes. While we show number taken directly from settlers, we probably get a million ties additional, of settlers' ties, through contractors. The settlers do not sell to us direct, because the contractors finance them.

Sir EUGENE Fiset: Do you mean to say you answer every inquiry that you receive even if sent through members of Parliament?

Mr. VAUGHAN: We do not get any inquiries through members of Parliament.

Sir EUGENE Fiset: Do not be too sure of that.

Sir HENRY THORNTON: I might put it this way: that if any member of Parliament has any questions to ask with respect to ties or anything else, he usually writes to me. I endeavour to get an answer to that question from the officer who is in charge of it, and reply to him. I do not know of any instance in which we have neglected to make a reply, and incidentally, I may say, that the answers to questions are numerous.

Sir EUGENE Fiset: I think I have written on a few occasions, but I did not write to you, of course; I wrote, I think, to the Vice-President, and my letter was referred to the Purchasing Branch as far as ties were concerned, but I never got any answer.

Sir HENRY THORNTON: Whom did you write to?

Sir EUGENE Fiset: Mr. Hungerford.

Sir HENRY THORNTON: He is a busy man; you ought to have written to me; I have not anything to do but answer letters. I would say this; that as a general principle any member of the House of Commons who has any question he wants to ask, if he will write to me, I will do my best to get him the answer.

The CHAIRMAN: Gentlemen, if you have no further questions, when we left the analysis at our last meeting we were at page 5. Shall we go on?

Sir HENRY THORNTON: There is one more question, Mr. Chairman.

Mr. HENRY: Colonel Cantley and Sir Eugene Fiset asked for a classification of the expenditures made on the Atlantic region last year. The question was:

Sir HENRY THORNTON: May I file the statement, to be published in the record?

Mr. HENRY: (Reads):

What is the classification of the expenditures made on the Eastern Lines out of the budget for betterments for the year ending December 31st, 1927?

[Sir Henry Thornton.]



Answer:

Please see attached statement of capital expenditures, according to engineering classifications, made on the Atlantic Region, for the year 1927, including:—

Canadian Government Railways  
Halifax and Southwestern Railways  
Canadian National Railways  
Inverness Railway  
Vale Railway.

(Statement follows):

# CANADIAN NATIONAL RAILWAYS

Eastern Lines (Atlantic Region)

SUMMARY OF CAPITAL EXPENDITURES

YEAR 1927 UNDER ENGINEERING CLASSIFICATION

## RECAPITULATION

Corporation	Account No.	Expend. applicable to invest. in road and equipment	Amount charged to Optg. Expenses	Retire-ments of Prop. Cr. to Capital Account	Expend. less retire-ments applicable to investment in road and equipment
		\$ cts.	\$ cts.	\$ cts.	\$ cts.
Canadian Government Railways.....	701	3,800,154 79	1,035,022 35	1,583,783 05	2,216,371 74
Halifax & Southwestern Railways.....	701	124,803 97	28,462 49	251,631 07	126,827 10
Canadian National Railways.....	701	9,884 45	.....	1,750 58	8,133 87
Total Account Nos. 701 and 706.....	.....	3,934,843 21	1,063,484 84	1,837,164 70	2,097,678 51
Inverness Railway.....	702	51,675 77	11,694 73	11,805 28	39,870 49
Vale Railway.....	702	651 38	.....	.....	651 38
Total Account No. 702.....	.....	52,327 15	11,694 73	11,805 28	40,521 87
Total Nos. 701, 702.....	.....	3,987,170 36	1,075,179 57	1,848,969 98	2,138,200 38



## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL RAILWAYS

## EASTERN LINES

(Atlantic Region)

## CANADIAN GOVERNMENT RAILWAYS

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Credit to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"			1,171 16		
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles	116½	938,794 49	511,533 13	824,443 64	114,350 85
B	Relaying rails (S.H. Rail).....	"	126	412,855 87	176,082 63	304,816 22	108,039 65
C	Tie plates.....	No.	609,464	193,700 75	10,856 94	2,475 00	191,225 75
D	Rail anchors.....	"	35,050	9,498 00			9,498 00
3	Ties.....	"					
4 A	Rock ballast.....	Cu. yds.					
B	Gravel ballast.....	"	48,510	66,261 17	11,496 47		66,261 17
C	Slag ballast.....	"	12,000	3,000 00	11,003 56		3,000 00
5 A	Widening outs and fills.....	"					
B	Scaling rock cuts.....	No. of I	1	1,276 19			1,276 19
6 A	Rip rap.....	Cu. yds.	2,491	7,077 17			7,077 17
B	Retaining walls and crib work.....	Lin. ft.					
7 A	Ditching.....	Cu. yds.					
B	Tile drainage.....	Lin. ft.	34,629	19,986 86	100 00	100 00	19,886 86
C	Sewers.....	No.	3	3,503 89	634 12	500 00	3,003 89
8 A	Highway and farm crossings.....	"	19	11,687 65	144 00	120 00	11,807 65
B	Roadways and paving.....	N. & S. Y.	11-14,344	15,161 98	9,348 34	10,576 96	4,585 02
9 A	Right of way fence.....	Miles	24½	14,325 77			14,325 77
B	Snow fence.....	Lin. ft.	2½M	8,429 08	1,410 00	1,410 00	7,019 08
10 A	Large freight terminals.....	No.	1	58,650 17			58,650 17
B	Large passenger terminals.....	"	3	661,186 89	102,135 61	71,293 51	589,893 38
11 A	Other yard tracks and public business sidings.....	N. & M.	47-6	144,543 41	8,422 39	11,358 72	133,184 69
B	Passing tracks.....	"	12-1½	36,214 52	6,077 42	6,345 63	29,868 89
C	Private sidings.....	"	79-1½	21,603 18	3,078 26	20,105 75	1,497 43
12	Roadway miscellaneous.....	No.	72	63,641 76	20,795 37	24,842 67	38,799 09
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"	9	27,067 74	18,515 64	12,699 00	14,368 74
B	Culverts, new or the replacement thereof.....	"	110	30,589 59	11,851 81	8,129 80	22,459 79
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.	5-617 ft.	14,738 01	10,028 97	8,913 00	5,825 01
D	Replacing timber bridges and trestles with culvert and fill.....	No. & L.	7-1,916 ft.	44,284 86	17,815 47	17,161 00	27,123 86
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"	1-147 ft.	11,546 67	2,522 28	2,440 00	9,106 67
14	Tunnels.....	No.					
15 A	Protection or elimination of grade crossings by diversions.....	"	1	750 00			750 00
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"	2	604 58	236 26	500 00	1,104 58
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"	13	7,654 67	6,374 08	6,250 00	1,404 67
16 A	Other station and shelters.....	"	29	104,013 34	22,996 58	19,910 95	84,102 39
B	Freight sheds.....	"	6	9,916 26	1,185 59	8,082 40	1,833 86
C	Stock pens.....	"	6	2,162 46	281 80	250 00	1,912 46
D	Section dwellings and bunkhouses.....	"	11	7,325 38	447 79	1,780 00	5,545 38
E	Platforms.....	"	24	12,397 37	1,624 12	900 96	11,496 41
F	Buildings (miscellaneous).....	"	35	29,787 76	7,984 31	22,370 00	7,417 76
G	Express facilities on railway.....	No. of I.	3	1,177 81	73 94	15 00	1,162 81
H	Track scales.....	No.	3	9,363 42	1,450 18	130 00	9,233 42
				2,980,194 26	974,863 38	1,387,920 21	1,592,274)

[Sir Henry Thornton.]



## CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

## CANADIAN GOVERNMENT RAILWAYS

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
17	Water supplies.....	No.	41	43,544 61	7,555 66	7,797 79	35,746 82
18	Fuel stations.....	"		97 71			97 71
19 A	Turntables.....	"	4	84,293 11	13,770 29	8,600 00	75,693 11
B	Ashpits.....	"	2	2,583 00	110 00	70 00	2,513 00
C	Other enginehouses, machine shops, etc.	"	14	57,826 33	20,651 09	20,535 57	37,290 76
20	Other locomotive and car shop bldg.	"	5	12,672 30	4,448 04	4,160 00	8,512 30
21 A	Docks and wharves and dredging for same.....	"	1	1,318 12	103 45	103 31	1,214 81
22	Grain elevators.....	"		250 00			250 00
23	Automatic block signals and interlocking plants.....	N. & Mi.	4	6,855 04	822 10	789 51	6,065 53
24 A 1	Purchase of locomotives.....	No.					
2	Betterments to locomotives.....	"	322	204,832 54			204,832 54
B 1	Purchase of freight cars.....	"					
2	Betterments to freight cars.....	"	1,492	48,014 41			48,014 41
3	Conversions.....	"	71			62,295 47	62,295 47
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"	141	36,991 81			36,991 81
3	Conversions.....	"	11			72,734 42	72,734 42
D 1	Purchase of motor equipment cars.....	"					
2	Betterments to motor equipment cars.....	"					
3	Conversions, motor equipment cars.....	"					
E 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipment.....	"					
F 1	Purchase of work equipment.....	"	126	2,120 23			2,120 23
2	Betterments to work equipment.....	"	38	9,522 04			9,522 04
3	Conversions.....	"	82	110,481 79			110,481 79
G 1	Miscellaneous equipment.....	No.					
2	Betterments to miscellaneous equipment.....	"					
25	Shop machinery and tools.....	"	103	89,972 45	6,622 08	14,395 50	75,576 95
26 A	Railway telephone despatch lines and equipment.....	N. & Mi.		124 84			124 84
B	Railway telegraph.....	No.	4	232 95	4,534 44		232 95
27	Purchase of land.....	"	20	8,033 09		2,631 27	5,401 82
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I. Miles					
30	Surveys, right-of-way and others.....	No.					
31	Hotels.....	"					
32	General miscellaneous.....	No. of I.	245	58,952 93	79 54	850 00	58,102 93
33	Unforeseen.....	No. of I.					
40	Stores, dept. buildings and equipment..	"	33	45,075 59	1,462 28	900 00	44,175 59
41	Express dept. equipment.....						
42	Traffic dept.....		3	247 07			247 07
43	Legal and tax dept.....		1	1,320 35			1,320 35
44	Colonization dept.....						
45	G.N.W. Telegraph Co.....						
46	Can. Nat. Telegraph Co.....						
47	Radio dept.....						
48	Electric lines in Ontario.....						
49	Oshawa Electric Railway.....						
50	1,000 Islands Railway.....						
51	M. & S. C. Railway.....						
52	G.T.P. Coach S.S. Co.....						
			819,960	53 60,158 97	195,862 84		624,097 69

## RECAPITULATION

Sheet No. 1.....	2,980,194 26	974,863 381,387,920 211,592,274 05.....
Sheet No. 2.....	819,960 53	60,158 97 195,862 84 624,097 69.....
	3,800,154 791,035,022 351,583,783 052,216,371 74.....	

[Sir Henry Thornton.]



## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL RAILWAYS—Continued

## EASTERN LINES—Continued

## (Atlantic Region)—Continued

## HALIFAX AND SOUTHWESTERN RAILWAY

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles					
B	Relaying rails (S.H. rail).....	"	13 1/2	51,067 82	16,940 26	31,404 22	19,663 60
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	Cy. Yds.					
B	Gravel ballast.....	"	22,968	27,594 56	2,027 54		27,594 56
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"					
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	Cy. Yds.					
B	Retaining walls and crib work.....	Lin. Ft.					
7 A	Ditching.....	Cy. Yds.					
B	Tile drainage.....	Lin. Ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....	"		68 06			68 06
B	Roadways and paving.....	N. & S.Y.					
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"	1	13,305 44	14 00		13,305 44
11 A	Other yard tracks and public business sidings.....	N. & M.	1-105 ft.	10 39	248 10	86 40	76 01
B	Passing tracks.....	"					
C	Private sidings.....	"	7-533 ft.	933 37	53 51	963 92	30 55
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"	1	2,078 05	1,163 68	725 00	1,353 05
B	Culverts, new or the replacement thereof.....	"					
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.	2-418 ft.	7,263 50	4,205 43	3,650 00	3,613 50
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length	2-28 1/2 ft.	1,838 75	907 12	430 00	1,408 75
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"	2-515 ft.	11,560 89			11,560 89
14	Tunnels.....	No.					
15 A	Protection or elimination of grade crossings by diversion.....	"	2	3,083 51			3,083 51
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
16 A	Other station and shelters.....	"		265 17			265 17
B	Freight sheds.....	"	1	400 32			400 32
C	Stock pens.....	"					
D	Section dwellings and bunkhouses.....	"	2	1,498 38	135 00	300 00	1,198 38
E	Platforms.....	"					
F	Buildings (miscellaneous).....	"	1	980 45		40 00	940 45
G	Express facilities on railway.....	No. of I.					
H	Track scales.....	No.					
17	Water supplies.....	"	1	285 20	2,767 85	6,274 45	5,989 25
18	Fuel stations.....	"					
				128,233 86	28,462 49	43,873 99	78,359 87

Note No. 9, A. and B. Omitted—No charges.

[Sir Henry Thornton.]



## CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

## HALIFAX AND SOUTHWESTERN RAILWAY—Continued.

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
19 A	Turntables.....	No.					
B	Ashpits.....	"					
C	Other enginehouses, machine shops, etc.	"					
20	Other locomotives and car shop buildings.....	"					
21 A	Docks and wharves and dredging for same.....	"					
22	Grain elevators.....	"					
23	Automatic block signals and interlocking plants.....	N. & miles					
24 A 1	Purchase of locomotives.....	No.					
2	Betterments to locomotives.....	"					
B 1	Purchase of freight cars.....	"					
2	Betterments to freight cars.....	"					
3	Conversions.....	"					
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"					
3	Conversions.....	"					
D 1	Purchase of motor equipment cars.....	"					
2	Betterments to motor equipment cars.....	"					
3	Conversions, motor equipment cars.....	"					
E 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipment.....	"					
F 1	Purchase of work equipment.....	"					
2	Betterments to work equipment.....	"					
3	Conversions.....	"					
G 1	Miscellaneous equipment.....	"					
2	Betterments to miscellaneous equipment	"					
25	Shop machinery and tools.....		52	1,191 54			1,191 54
26 A	Railway telephone despatch lines and equipment.....	No. & mi.					
B	Railway telegraph.....	No.					
27	Purchase of land.....	"	3	479 67			479 67
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I.					
30	Surveys right-of-way and others.....	Miles					
31	Hotels.....	No.					
32	General Miscellaneous.....	"	4	898 90		207,757 08	206,858 18
33	Unforeseen.....	No. of I.					
40	Stores department buildings and equipment.....	"					
41	Express department equipment.....						
42	Traffic department.....						
43	Legal and tax department.....						
44	Colonization department.....						
45	G.N.W. Telegraph Co.....						
46	Can. Nat. Telegraph Co.....						
47	Radio department.....						
48	Electric lines in Ontario.....						
49	Oshawa Electric Railway.....						
50	1,000 Islands Railway.....						
51	M. & S.C. Railway.....						
52	G.T.P. Coach S.S. Co.....						
				2,570 11		207,757 08	205,186 97

## RECAPITULATION

Sheet No. 1.....			122,233 86	28,462 49	43,873 99	78,359 87
Sheet No. 2.....			2,570 11		207,757 08	205,186 97
			124,803 97	28,462 49	251,631 07	126,827 10

[Sir Henry Thornton.]



## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL RAILWAYS

## EASTERN LINES

## (Atlantic Region)

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles					
B	Relaying rails (S. H. Rail).....	"					
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	Cu. yds.					
B	Gravel ballast.....	"					
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	No. of I.					
B	Scaling rock cuts.....	Cu. yds.					
6 A	Rip rap.....	Lin. ft.					
B	Retaining walls and cribwork.....	Cu. yds.					
7 A	Ditching.....	Lin. ft.					
B	Tile drainage.....	No.					
C	Sewers.....	"					
8 A	Highway and farm crossings.....	N. & S.Y.	1	166 80			166 80
B	Roadways and paving.....	Miles					
9 A	Right of way fence.....	Lin. ft.					
B	Snow fence.....	No.					
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"					
11 A	Other yard tracks and public business sidings.....	N. & M.	1-463 ft.			1,750 58	1,750 58
B	Passing tracks.....	"					
C	Private sidings.....	No.					
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	No. & L.	1-1392 ft.	6,637 22			6,637 22
B	Culverts, new or the replacement thereof.....	No. and length					
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	"					
D	Replacing timber bridges and trestles with culvert and fill.....	"					
E	Replacing timber bridges and trestles with permanent concrete or steel bridges.....	No.					
14	Tunnels.....	"					
15 A	Protection or elimination of grade crossings by diversions.....	"					
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
16 A	Other station and shelters.....	"					
B	Freight sheds.....	"					
C	Stock pens.....	"					
D	Section dwellings and bunkhouses.....	"					
E	Platforms.....	"					
F	Buildings (Miscellaneous).....	"					
G	Express facilities on railway.....	No. of I.					
H	Track scales.....	No.					
17	Water supplies.....	"					
				6,804 02		1,750 58	5,053 44

[Sir Henry Thornton.]



## CANADIAN NATIONAL RAILWAYS

## EASTERN LINES

## (Atlantic Region)

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
18	Fuel stations.....	No.					
19 A	Turntables.....	"					
B	Ashpits.....	"					
C	Other enginehouses, machine shops, etc.	"					
20	Other locomotive and car shop building.	"					
21 A	Docks and wharves and dredging for same.....	"					
22	Grain elevators.....	"					
23	Automatic block signals and inter- locking plants.....	N. & Mi.					
24 A 1	Purchase of locomotives.....	No.					
2	Betterments to locomotives.....	"	18	1,934 86			1,934 86
B 1	Purchase of freight cars.....	"					
2	Betterments to freight cars.....	"					
3	Conversions.....	"					
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"	23	1,145 57			1,145 57
3	Conversions.....	"					
D 1	Purchase of motor equipment cars.....	"					
2	Betterments to motor equipment cars..	"					
3	Conversions to motor equipment cars..	"					
E 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipment.....	"					
F 1	Purchase of work equipment.....	"					
2	Betterments of work equipment.....	"					
3	Conversions of work equipment.....	"					
G 1	Miscellaneous equipment.....	"					
2	Betterments to miscellaneous equipment	"					
	Equipment.....	"					
25	Shop machinery and tools.....	"					
26 A	Railway telephone despatch lines and equipment.....	N. & Mi.					
B	Railway telegraph.....	No.					
27	Purchase of land.....	"					
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I.					
30	Surveys, right-of-way and others.....	Miles					
31	Hotels.....	No.					
32	General miscellaneous.....	"					
33	Unforeseen.....	No. of I.					
40	Stores dept. building and equipment...	"					
41	Express dept. equipment.....						
42	Traffic department.....						
43	Legal and tax dept.....						
44	Colonization dept.....						
45	G.N.W. Telegraph Co.....						
46	Can. Nat. Telegraph Co.....						
47	Radio dept.....						
48	Electric lines in Ontario.....						
49	Oshawa Electric Railway.....						
50	1,000 Islands Railway.....						
51	M. and S.C. Railway.....						
52	G.T.P. Coach S.S. Co.....						
				3,080 43			3,080 43

## RECAPITULATION

Sheet No. 1.....			6,804 02	1,750 58	5,053 44
Sheet No. 2.....			3,080 43		3,080 43
			9,884 45	1,750 58	8,133 87

[Sir Henry Thornton.]

## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL RAILWAYS

## EASTERN LINES

## (Atlantic Region)

## INVERNESS RAILWAY

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 702

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles	3—4,782ft.	15,025 00	9,894 73	9,461 33	5,563 67
B	Relaying rails (S.H. Rail.).....	"					
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	cu. yds.					
B	Gravel ballast.....	"	19,200	9,399 08			9,399 08
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"	20,670	7,909 39			7,909 39
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	cu. yds.					
B	Retaining walls and crib work.....	lin. ft.					
7 A	Ditching.....	cu. yds.					
B	Tile drainage.....	lin. ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....	"					
B	Roadways and paving.....	N. & S.Y.					
9 A	Right of way fence.....	Miles					
B	Snow fence.....	lin. ft.	6,364	2,689 70			2,689 70
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"					
11 A	Other yard tracks and public business sidings.....	N. & M.					
B	Passing tracks.....	"					
C	Private sidings.....	"	1—617			543 95	543 95
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"					
B	Culverts, new or the replacement thereof.....	"	10	3,784 46			3,784 46
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.					
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length					
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"					
14	Tunnels.....	No.					
15 A	Protection or elimination of grade crossings by diversions.....	"					
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
A	Other station and shelters.....	"	1	5,988 46			5,988 46
B	Freight sheds.....	"					
C	Stock pens.....	"					
D	Section dwellings and bunkhouses.....	"					
E	Platforms.....	"					
F	Buildings (miscellaneous).....	No. of I.					
G	Express facilities on railway.....	"					
H	Track scales.....						
				44,796 09	9,894 73	10,005 28	34,790 81

[Sir Henry Thornton.]



## CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

## INVERNESS RAILWAY

## SUMMARY OF CAPITAL EXPENDITURES

Account No. 702

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
17	Water supplies.....	No.	1	6,858 67	1,800 00	1,800 00	5,058 67
18	Fuel stations.....	"					
19 A	Turntables.....	"					
B	Ashpits.....	"					
C	Other enginehouses, machine shops, etc.	"					
20	Other locomotive and car shop building	"					
21 A	Docks and wharves and dredging for same.....	"					
22	Grain elevators.....	"					
23	Automatic block signals and interlocking plants.....	N. & Mi.					
24 A 1	Purchase of locomotives.....	No.					
2	Betterments to locomotives.....	"					
B 1	Purchase of freight cars.....	"					
2	Betterments to freight cars.....	"					
3	Conversions.....	"					
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"					
3	Conversions.....	"					
D 1	Purchase of motor equipped cars.....	"					
2	Betterments to motor equipped cars.....	"					
3	Conversions, motor equipped cars.....	"					
F 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipment.....	"					
F 1	Purchase of work equipment.....	"					
2	Betterments to work equipment.....	"					
3	Conversions.....	"					
C 1	Miscellaneous equipment.....	"					
2	Betterments to miscellaneous equipment.....	"					
25	Shop machinery and tools.....	"					
26 A	Railway telephone despatch lines and equipment.....	N. & Mi.					
B	Railway telegraph.....	No.		21 01			21 01
27	Purchase of land.....	"					
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I.					
30	Surveys right-of-way and others.....	Miles					
31	Hotels.....	No.					
32	General miscellaneous.....	"					
33	Unforeseen.....	No. of I.					
40	Stores Dept. and Equip.....	"					
41	Express Dept. and Equip.....						
42	Traffic Dept.....						
43	Legal and Tax Dept.....						
44	Colonization Dept.....						
45	G.N.W. Telegraph Co.....						
46	Can. Nat. Teleg. Co.....						
47	Radio Dept.....						
48	Electric lines in Ontario.....						
49	Oshawa Electric Railway.....						
50	1000 Islands Railway.....						
51	M. and S. C. Railway.....						
52	G.T.P. Coach S.S. Co.....						
				6,879 68	1,800 00	1,800 00	5,079 68

## RECAPITULATION

Sheet No. 1.....			44,796 09	9,894 73	10,005 28	34,790 81
Sheet No. 2.....			6,879 68	1,800 00	1,800 00	5,079 68
			51,675 77	11,694 73	11,805 28	39,870 49

[Sir Henry Thornton.]

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

VALE RAILWAY

SUMMARY OF CAPITAL EXPENDITURES

Account No. 702

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles					
B	Relaying rails (S.H. rails).....	"		651 38			651 38
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	Cu. Yds.					
B	Gravel ballast.....	"					
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"					
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	Cu. Yds.					
B	Retaining walls and crib work.....	Lin. ft.					
7 A	Ditching.....	Cu. Yds.					
B	Tile drainage.....	Lin. ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....	"					
B	Roadways and pavings.....	N. & S.Y.					
9 A	Right of way fence.....	Miles					
B	Snow fence.....	Lin. ft.					
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"					
11 A	Other yard tracks and public business sidings.....	N. & M.					
B	Passing tracks.....	"					
C	Private sidings.....	"					
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"					
B	Culverts, new, or the replacement thereof.....	"					
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.					
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length					
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"					
14 A	Protection or elimination of grade cross- ings by diversions.....	No.					
B	Protection or elimination of grade cross- ings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
16 A	Other station and shelters.....	"					
B	Freight sheds.....	"					
C	Stock pans.....	"					
D	Section dwellings and bunkhouses.....	"					
	Total.....			651 38			651 38

Note, No. 17 to No. 52 not listed—No charges.

[Sir Henry Thornton.]



Hon. Mr. DUNNING: At our last meeting we stopped at page 5 of the Accounts. Every member of the Committee had this analysis at the last meeting. It was got out in order that we might better understand it. Have you any extra copies, for members of the Committee only?

Sir HENRY THORNTON: I think, Mr. Chairman, that I might make this suggestion, if it is agreeable to the Committee, that as we have circulated to the members of the Committee detailed explanations with respect to the expenditures in each department, perhaps instead of reading all these figures, some of which might be superfluous, we might take Traffic, Transportation, and the expenses under these various headings, and then ask the Committee if any member wants to ask any question about any particular subdivision of expenses. It will save reading all these figures.

Hon. Mr. DUNNING: You have already read four pages, Sir Henry, and there are only three and a half pages left.

Sir HENRY THORNTON: I thought it would save time, but it is for the members to decide.

The CHAIRMAN: Start at the top of page 5.

Sir HENRY THORNTON: Mr. Henry will please commence with Traffic Expenses, starting at the top of page 5.

Mr. HENRY: (Reads):

Traffic expenses, 1927.. . . .	\$7,124,865
Traffic expenses, 1926.. . . .	6,440,088 Inc. \$684,777

*Principal increases—*

Superintendence.. . . .	177,640
Advertising.. . . .	175,162
Outsidé agencies.. . . .	165,186
Colonization, Agriculture and Natural Resources.. . . .	86,652

The CHAIRMAN: Stop there, Mr. Henry. Does anybody want any explanation of these items?

Mr. JELLIFF: Where does the increase in superintendence come in; can we get the details of that?

Mr. HENRY: An increase in superintendence as well as increased rates of pay.

Sir HENRY THORNTON: Some increased pay, and an increase in solicitation forces.

Mr. McLEAN (Melfort): Consisting almost entirely of the cost of securing freight?

Sir HENRY THORNTON: The cost, as you say, of securing business.

Mr. McLEAN (Melfort): An increase is a good sign, in that department?

Sir HENRY THORNTON: An increase is a good sign, if you get the business.

The CHAIRMAN: All right, Mr. Henry, go on.

Mr. HENRY: Transportation:

Transportation Expenses 1927, \$105,166,761.

Sir EUGENE Fiset: Before you leave Traffic, there is an item there for advertising; can you tell us particularly what that involved. Does it include the issue of passes as well as transportation to each paper on advertising? Is that taken into consideration?

Mr. HENRY: It is free transportation given in exchange for newspaper space.

[Sir Henry Thornton.]

Sir EUGENE Fiset: Is that included in this amount?

Mr. HENRY: Yes.

Mr. McLEAN (Melfort): You could hardly call that free transportation, could you?

Sir HENRY THORNTON: It is transportation in return for services rendered.

Mr. McLEAN (Melfort): But the word "free" was used.

Mr. HENRY: That was a mistake. It was transportation.

Sir EUGENE Fiset: The value of the passes issued is included in this financial statement?

Mr. HENRY: That is true.

Mr. THOMPSON: May I make a statement in regard to that? All this increase in transportation is charged against our advertising expropriation as cash expenditure.

Hon. Mr. DUNNING: So it is not free?

Mr. WALTER THOMPSON: There is no such word in the whole Railway Act as "free" transportation.

Hon. Mr. DUNNING: No.

Sir EUGENE Fiset: How is it administered?

Mr. THOMPSON: It is administered in this way; we have an arrangement with a newspaper, either a weekly or a daily newspaper, for the issuance of transportation. Many newspapers have no cash contracts, they have transportation contracts. A ticket is presented on a train. It is taken into our revenues in exactly the same way as it is in the ticket office, or as a ticket issued out of the depot ticket office would be, and it is charged against the advertising account, which you see in that amount. A very large amount of that money is transportation.

Mr. McLEAN (Melfort): It is charged up against the newspapers?

Mr. THOMPSON: We take it out in various forms, sometimes display advertising, sometimes reader notices, but we get a perfect balance in connection with the exchange. There is no such thing as free transportation on the railroad to-day.

Mr. MILNE: Why the increase in the colonization and agriculture expenses?

Sir HENRY THORNTON: It is a general strengthening of the Colonization fabric. Perhaps Mr. Robb can answer that question better than I can.

Mr. ROBB: Sixteen per cent of our business is brought about in that way, and it is spread over our colonization and natural resources.

Sir HENRY THORNTON: We can give you all the details, but in a general way it is a strengthening of the Colonization and Agriculture and Natural Resources Departments, spending more money to get more results.

Mr. McLEAN (Melfort): I suppose you have, in connection with that policy, sold more lands and secured more settlement?

Sir HENRY THORNTON: Yes. What percentage of the immigrants to Canada did we handle last year, Mr. Robb?

Mr. ROBB: I think last year we handled about 32 to 35 per cent; no, last year we handled 57 per cent.

Sir HENRY THORNTON: We handled 57 per cent of the immigrants that came to Canada; they came through the instrumentality of the Canadian National Railways.

Mr. JELLIFF: It is all given on page 9 of the report.

Sir HENRY THORNTON: You will find it on page 9, under Colonization, general explanations.

[Sir Henry Thornton.]



Mr. ROBB: We brought in 38,000 as against 31,000 the year before.

Sir HENRY THORNTON: Shall we go on with Transportation?

Mr. JELLIFFE: Outside agencies, increase \$165,000; are there any new agencies established?

Sir HENRY THORNTON: That represents the establishment of new agencies outside the Dominion of Canada. For instance, not so long ago we opened a new office at Memphis, Tennessee, which is an important gateway, and where we were not represented before. As a result of that, we were losing business. We opened an agency, and put in an agent and a stenographer at Memphis, to protect that gateway.

Mr. JELLIFF: What class of business are you getting?

Sir HENRY THORNTON: General business, some oil, rubber and cotton. We have improved our offices at various places throughout the States, particularly our passenger offices; we have put them in better locations, and in general are increasing activities in the solicitation of traffic on the other side of the border.

Mr. JELLIFF: Were any other agencies opened, besides at Memphis?

Sir HENRY THORNTON: At Washington. In every case we have added to the solicitation forces at stations already existing.

The CHAIRMAN: Are there any further questions on Traffic?

Mr. HENRY: Transportation.

Transportation Expenses, 1927. . . . .	\$105,186,761	
Transportation Expenses, 1926. . . . .	100,603,158	*\$4,563,603

\* Increase

The principal increases are:

Trainmen. . . . .	\$ 1,015,000
Train Enginemen. . . . .	631,000
Fuel for Locomotives. . . . .	593,000
Station Employees. . . . .	475,000
Train Supplies and Expenses. . . . .	324,000
Yard Conductors and Brakemen. . . . .	291,000
Express Service. . . . .	252,000
Operating floating equipment. . . . .	245,000

The principal decrease is:

Superintendence. . . . .	\$ 102,000
--------------------------	------------

The increase in trainmen is due to increased rate of pay \$658,000 and increased hours worked \$357,000. Train enginemen's rates of pay \$339,000; increased work, \$292,000.

Fuel for locomotives, increased price \$238,000, and increased consumption \$487,000. There was a credit to this account of \$102,000 B.C. Sales Tax on fuel oil cancelled.

Increase in station employees account was caused by increased rates of pay \$474,000. Train supplies and expenses, increased rates of pay, \$94,000; detouring charges due to floods, \$61,000. Yard conductors and brakemen, increased rates of pay \$222,000; additional hours worked, \$69,000. Express service, increased rates of pay, \$44,000, and accountancy item, \$64,000, due to revised method of apportioning expense between the C.N.R. and the Eastern Lines.

[Sir Henry Thornton.]

Mr. CANTLEY: What is the meaning of that item of \$64,000 covering the revised method of apportioning expense between the C.N.R. and the Eastern Lines?

Mr. COOPER: Previous to the establishment of the Eastern Lines, we divided the revenue.

Mr. CANTLEY: What date was that?

Mr. COOPER: July 1, 1927. We divided the revenue and expenses of the Express Department, as between regions, on an arbitrary basis. With the establishment of the Eastern Lines, we thought it necessary to make a more accurate division and apportionment. The revenue of the Eastern Lines was decreased, and the apportionment of expenses on the Eastern Lines was correspondingly decreased.

Hon. Mr. DUNNING: That is a decreased expense charged to Eastern Lines on the Express account?

Mr. COOPER: Yes, sir, due to revised apportionment.

Mr. CANTLEY: You say "decreased," while this says "increased."

Hon. Mr. STEVENS: That is an increase outside of the Eastern Lines.

Sir HENRY THORNTON: It is an increase on that part of the system with which you are dealing now. It will appear as a decrease on the Eastern Lines.

Mr. HENRY: (Reads):

Operating Floating Equipment;

Two new ferries were put in operation on Lake Michigan. There was also increased service to Prince Edward Island.

Sir EUGENE Fiset: What was the cost of those ferries?

Mr. VAUGHAN: \$1,478,000 for the two ferries.

Mr. CANTLEY: Did the boats make more trips and carry more freight?

Mr. HENRY: Yes, there were more trips, and I think there was another boat put on for a while.

Mr. BROWN: We brought the old "Scotia" up there for a relief period, as well.

Mr. CANTLEY: To supplement the ferry?

Mr. BROWN: Yes.

Mr. JELLIFF: What were the two new ferries on Lake Michigan, and where were they put on?

Sir HENRY THORNTON: We operate train ferries from Grand Haven to Milwaukee. This affords a direct traffic route from the east to the west, eliminating Chicago. If those ferries were not in existence, freight moving east of Chicago would have to pass through Chicago.

Mr. JELLIFF: You have a line running to Grand Haven?

Sir HENRY THORNTON: Yes.

Mr. JELLIFF: Which connects with your line in Chicago?

Sir HENRY THORNTON: Yes. To pass freight through Chicago is expensive, and involves a good deal of delay. This route is becoming more and more popular; first, because it is more expeditious, and, secondly, because it is cheaper. The volume of business is increasing with rapidity, and these two new ferries were put on to give us that facility.

Sir EUGENE Fiset: Are those ferries larger than those on the Main Line?

Sir HENRY THORNTON: I do not know, but I should say that probably they are.

Mr. VAUGHAN: These ferries carry twenty-six loaded cars.

[Sir Henry Thornton.]



AN HON. MEMBER: Do you find the traffic from Prince Edward Island to the mainland increasing all the time?

SIR HENRY THORNTON: Yes. The potato crop gives quite a material increase.

MR. CANTLEY: What are you doing about a new ferry for Prince Edward Island?

SIR HENRY THORNTON: These ferries are owned by the Government, but we have the strengthening of our ferry service under consideration, but we have not determined definitely with the Government what to do. There has been a good deal of talk, and with some merit, that there should be an additional ferry, not only to take care of the increased business, but to provide a more positive service in the event of one ferry going out of service for some unanticipated reason.

MR. CANTLEY: I would like to know what you are doing about it. Have you ordered another boat, or are you going to?

SIR HENRY THORNTON: I do not know whether we are going to order one or not; that is under consideration.

MR. CANTLEY: Who will know, the Minister?

SIR HENRY THORNTON: The Minister and I will probably talk about it, and decide what we had better do.

MR. CANTLEY: Have you talked about it?

SIR HENRY THORNTON: Oh, yes.

MR. CANTLEY: What has been done?

SIR HENRY THORNTON: Nothing as yet. May I round up the situation by saying this; the traffic to and from Prince Edward Island is increasing.

MR. CANTLEY: This ferry boat is 13 or 14 years old and she may break down at any time, and the Island is dependent on one boat.

SIR HENRY THORNTON: It is not quite as bad as that, but there is a measure of truth in what you say. The situation is receiving serious consideration, and is not going to be overlooked.

MR. CANTLEY: But nothing was done this year?

SIR HENRY THORNTON: Nothing this year.

SIR EUGENE Fiset: Have you been approached in any way, shape or form by the paper companies operating on the North Shore, to have a car-ferry between the North Shore and Rimouski?

SIR HENRY THORNTON: I do not think so. Do you recall anything, Mr. Vaughan??

MR. VAUGHAN: No.

SIR HENRY THORNTON: No, I do not recall anything. There has been a certain amount of disconnected discussion about it.

SIR EUGENE Fiset: I hope you will consult with the Minister when you consider the matter.

SIR HENRY THORNTON: We always seek the advice of those who can give us intelligent information.

MR. HENRY: (Reads):

Decrease in superintendence is due to a readjustment of expenses to other accounts  
Increased rates of pay amounted to \$59,000.

The effect of the various main factors:

Change in price of material:

Fuel.. . . . .	*\$ 238,000	
Other Material and Miscellaneous.. . . .	† 1,303,000	
Rebate of B.C. Sales tax.. . . .	† 132,000	†\$1,197,000

[Sir Henry Thornton.]

Changes due to variation in quantities of Material:			
Fuel.. . . .	*\$ 487,000		
Other Material and Miscellaneous.. . . .	* 1,822,000	*\$2,309,000	
Changes in employees' compensation:			
Increased rates of pay.. . . .	*\$2,299,000		
Increased hours worked.. . . .	* 1,359,000		
Accountancy items.. . . .	* 188,000	*\$3,470,000	
Total (after credit for transportation for investment).. . .		*\$4,582,000	
* Increase      † Decrease			

The increase in quantity of labour and material after adjustment for accidents was \$3,364,000, while the increase which might be expected due to change in traffic was \$1,432,000.

Sir HENRY THORNTON: That covers all the transportation.

The CHAIRMAN: Are there any questions you wish to ask on that, before we leave that item?

Sir EUGENE Fiset: In this item you have the words "conductors and brakemen." Does that include the salaries paid to roadmasters?

Sir HENRY THORNTON: No, they come under "Maintenance of way", which item we have already been over.

Mr. HENRY: (Reads):

Miscellaneous:			
Miscellaneous Expenses, 1927.. . . .	\$2,414,842		
Miscellaneous Expenses, 1926.. . . .	2,121,607	*\$293,235	

The principal increase is in Dining and Buffet Service \$312,000, increased rates of pay account for \$27,000 and the balance is made up of improvement and increase in service.

General:			
General Expenses, 1927.. . . .	\$7,226,200		
General Expenses, 1926.. . . .	6,970,244	*\$255,956	

Principal Increases:			
Pensions.. . . .	\$ 155,000		
Salaries and Expenses Clerks and Attendants.. . . .	93,000		
Other Expenses.. . . .	74,013		

\* Increase

Hon. Mr. STEVENS: What does that item, "General Expenses" cover, briefly?

Sir HENRY THORNTON: Mr. Cooper, will you tell Mr. Stevens the general items that are included in the item of General Expenses?

Mr. COOPER: The general overhead that would not come directly under the Maintenance of Way, Maintenance of Equipment, or Transportation. For instance, the salary of the President would be a general expense; legal expense; head office clerks, and so on.

Mr. HENRY: (Reads):

Transportation for Investment Cr.:			
Transportation for Investment Cr., 1927.. . .	\$ 993,350		
Transportation for Investment Cr., 1926.. . .	1,012,478	†\$19,128	

† Decrease

Mr. CANTLEY: What is the meaning of "Transportation for Investment"?

Mr. COOPER: That is the expense of transporting men and material for construction work, which is credited to the Operating Expense Account.

[Sir Henry Thornton.]



Mr. HENRY: (Reads):

The Eastern Lines Accounts are shown separately for six months from July 1st, the date of the Maritime Freight Rates Act coming into force, to December 31st. The 1926 figures are also shown for comparative purposes.

Eastern Lines for six months, July 1st to December 31st:—

Item	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 3,800,025 39	\$ 3,794,940 64	†\$ 5,084 75
Maintenance of Equipment..	2,473,951 91	2,445,504 78	† 28,447 13
Traffic..	379,200 54	374,452 60	† 4,747 94
Transportation..	6,799,526 39	7,227,285 71	* 427,759 32
Miscellaneous..	191,460 56	219,327 07	* 27,866 51
General..	611,317 65	673,183 62	* 61,865 97
Transportation for Investment Cr....	23,499 33	20,841 99	† 2,657 34
	\$14,231,983 11	\$14,713,852 43	*\$481,869 32

\* Increase † Decrease

The expenses analyzed into primary accounts may be found on pages 43 to 46 of the preliminary statement of accounts tabled in the House of Commons.

The expenses may be further divided between employees compensation and materials and miscellaneous. The division is as follows:—

Employees Compensation	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 2,012,530 00	\$ 2,076,487 00	*\$ 63,957 00
Maintenance of Equipment..	1,283,041 00	1,290,895 00	* 7,854 00
Traffic..	175,194 00	180,885 00	* 5,691 00
Transportation..	4,425,438 00	4,781,866 00	* 356,428 00
Miscellaneous..	103,403 00	119,318 00	* 15,915 00
General..	300,473 00	321,997 00	* 21,524 00
	\$ 8,300,079 00	\$ 8,771,448 00	*\$471,369 00

\* Increase

Materials and Miscellaneous	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 1,787,495 00	\$ 1,718,454 00	†\$ 69,041 00
Maintenance of Equipment..	1,190,911 00	1,154,610 00	† 36,301 00
Traffic..	204,007 00	193,567 00	† 10,440 00
Transportation..	2,350,589 00	2,424,578 00	* 73,989 00
Miscellaneous..	88,057 00	100,000 00	* 11,952 00
General..	310,845 00	351,186 00	* 40,341 00
	\$ 5,931,904 00	\$ 5,942,404 00	*\$ 10,500 00

\* Increase † Decrease

Mr. CANTLEY: What is the difference between traffic and transportation?

Mr. HENRY: Traffic represents the solicitation; transportation represents the handling of traffic.

The expenses analyzed into primary accounts may be found on pages 43 to 46 of the preliminary statement of accounts tabled in the House of Commons.

The expenses may be further divided between employees' compensation and materials and miscellaneous. The division is as follows:

Hon. Mr. DUNNING: This is all eastern lines from now on?

Mr. HENRY: Yes. (Reading):

Employees Compensation	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 2,012,530 00	\$ 2,076,487 00	*\$ 63,957 00
Maintenance of Equipment..	1,283,041 00	1,290,895 00	* 7,854 00
Traffic..	175,194 00	180,885 00	* 5,691 00
Transportation..	4,425,438 00	4,781,866 00	* 356,428 00
Miscellaneous..	103,403 00	119,318 00	* 15,915 00
General..	300,473 00	321,997 00	* 21,524 00
	\$ 8,300,079 00	\$ 8,771,448 00	*\$471,369 00

\* Increase

[Sir Henry Thornton.]

Sir HENRY THORNTON: That means the total increase of \$471,000 was due to increased compensation, and you will see below \$10,000 due to material and miscellaneous. That accounts for the total increase of \$481,000.

Hon. Mr. DUNNING: I do not think you need to read the other items. They are all very small.

Sir HENRY THORNTON: I do not think there is anything on the next page which adds anything.

Hon. Mr. STEVENS: Sir Henry (Thornton), I do not know whether I am treading on delicate ground or not—

Sir HENRY THORNTON: Tread as much as you like.

Hon. Mr. STEVENS: They say, "Fools wade in where angels fear to tread" and maybe this is an occasion of that kind, but I notice some conflict or contest between the Canadian National and the C.P.R. in the hotel situation in Halifax.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: I think it would be a good idea if we could have some explanation of that. The reason I ask the question is this. I think Parliament has accepted for years the policy of trying to avoid duplication as far as possible in the two railway systems—

Sir HENRY THORNTON: That will come up as a special item in the estimates, if you care to defer your question until then.

Hon. Mr. STEVENS: I have no object in pressing the question now.

Sir HENRY THORNTON: Press as much as you like, but when discussing the estimates, that item will be included, and that will, I should think, be the proper place to bring it up.

Hon. Mr. DUNNING: It is a proposed expenditure, and as such we can deal with it more intelligently in the estimates.

Hon. Mr. STEVENS: Just keep that in mind, and we can discuss it later.

Sir HENRY THORNTON: Yes. I fully expected that would be one of the questions which would arise.

Hon. Mr. STEVENS: It is a question of the wisdom of duplication; that is all.

Sir HENRY THORNTON: I quite appreciate that. I think, Mr. Chairman, if I may say this, the Committee has now examined all of the items which enter into the expenses of the National Railway System, and unless further questions are to be asked, we have finished with the income accounts.

Hon. Mr. STEVENS: That is dealing with operation.

Sir HENRY THORNTON: Mr. Dunning suggests you might like to take up the annual report.

Hon. Mr. DUNNING: The president's statement. However, it is up to the Committee. Personally, I am fully satisfied with it, but if the Committee wishes to take it up, it is usual to do so at this time.

Sir EUGENE Fiset: The fact remains that we have perused the preliminary report, and the report of the Canadian National Railways is practically a copy of it. If there are no further questions, I move the report be adopted.

Hon. Mr. STEVENS: I do not quite get that.

Sir EUGENE Fiset: The explanations in the preliminary report are practically the same as those contained in the main report of the Canadian National Railways. We have examined the analysis of that report, and if there are no further questions, we might as well approve it.

Hon. Mr. STEVENS: That would be a very convenient short-cut, but I do not think it would be a wise one.

Sir HENRY THORNTON: I think General Fiset means that you have examined the primary accounts which make up the expenses of the Canadian National

[Sir Henry Thornton.]



Railways, and he suggests that you approve the report in so far as the expenses are concerned. This does not deal with the capital expenditures at all.

Sir EUGENE Fiset: It will be an occasion for discussion when the estimates are before us.

Sir HENRY THORNTON: You have simply dealt with the current expenses for the year.

Mr. McLEAN (Melfort): Mr. Chairman, I would like to draw attention to the item of "Maintenance of Way and Structures" on pages 6 and 7. The wage increase is quite large, but the total increase is very small, if any. There is a decrease in the last item on page 7 of \$59,000, and I notice decreases in various items of maintenance, and I also notice something of the same tendency elsewhere. There is an increase in compensation and wages in quite a few items, but there are quite a few decreases in maintenance of way and structures. The question is, are the lines being fully kept up or improved.

Sir HENRY THORNTON: "Maintenance of Way and Structures" decreased \$5,000. Practically speaking, having regard for the amount involved, that is about the same one year as another; that is to say, there has only been a variation of \$5,000 for the last six months in "Maintenance of Way and Structures" with respect to the eastern lines. While there is a decrease, the \$5,000 there is a relatively small amount, and it means, practically speaking, that the expenses have been the same.

Mr. McLEAN (Melfort): There has been a large increase in compensation and wages.

Sir HENRY THORNTON: The increase there was practically \$64,000. Then you say "Does that mean the lines have been allowed to deteriorate"—

Mr. McLEAN (Melfort): That is my question.

Sir HENRY THORNTON: —and the answer is "No, they have not". From year to year you may expend a little more this year than you did last year, in maintenance. You may be confronted with a situation which involves the laying of heavier rails this year. Those rails, once laid, may not be renewed for ten years, so that you cannot always spend exactly the same amount every year. In estimating whether a property is deteriorating or not, you have to look at it not for a period of twelve months, but over a period of years. From my knowledge of the eastern lines, I would say that the track and the general condition of the property is better than it was in the past year, and is very considerably better than it was four years ago.

Sir EUGENE Fiset: I hope that statement applies to the unfortunate section of the eastern lines which we call "the orphan line" between Riviere du Loup and Campbellton.

Sir HENRY THORNTON: We have no "orphans" General.

Sir EUGENE Fiset: For instance, the fences between Riviere du Loup and Campbellton have not been touched for thirty years. We are succeeding bit by bit in getting a few miles of fences built yearly. I do not know whether it is due to the fact that there is a deficit on the eastern lines, but we have a great deal of difficulty in having these fences placed in proper shape. They have adopted the programme lately of improving them somewhat, but in the meantime valuable animals are being killed almost daily.

Sir HENRY THORNTON: The point to which you call attention, General, merits attention. There is no doubt but what the general condition of the fences on—for want of a better name—what we call the "eastern lines" has not been good. We are improving them year by year, but like other things we cannot improve them all at once, at least not without running into an enormous expense, but we are improving the general condition. For the six months

[Sir Henry Thornton.]



ending December 31, 1927, we spent, in round figures, \$46,000 on fences. For the same period in 1926 we spent \$26,000. In other words, we increased our expenditures in the territory of which you spoke for fences from \$26,000 to \$46,000, about \$20,000, or approximately 75 per cent. That is, we spent 75 per cent more on fences in the last six months this year than in the same period of 1926. So you can see we are going ahead with rapidity in correcting the situation to which you call attention.

Hon. Mr. DUNNING: I might help the General by pointing out that in the future if he, or any others, feel aggrieved in this matter, they need not come to Sir Henry Thornton or the other officers, but they can go to the Board of Railway Commissioners, the same as the unfortunate people in the other parts of the country.

Sir HENRY THORNTON: General (Sir Eugene Fiset), do you not think an increase of 75 per cent in that particular item is evidence of a very substantial attempt on our part to correct the situation.

Mr. CANTLEY: That would depend on the amount you spent the previous year. If you spent one dollar, and the increase was 75 cents, it would not amount to very much. How much did you pay out the year before?

Sir HENRY THORNTON: I can only speak in periods of six months. For the six months ending December 31st, 1927, we spent \$46,000.

Mr. CANTLEY: Over how much mileage?

Sir HENRY THORNTON: For the same period in 1926 we spent \$26,000.

Mr. CANTLEY: Over how much mileage?

Sir HENRY THORNTON: Approximately 2,800 miles.

Hon. Mr. STEVENS: On the eastern lines?

Hon. Mr. DUNNING: The eastern lines, until the amendment passed the House of Commons the other day, were not amenable to orders of the Board in that regard. From now on, those who are aggrieved can go to the Board if they are not satisfied with what the railroad is doing.

Mr. CANTLEY: It is spread out pretty thin.

Sir HENRY THORNTON: Yes, but you cannot do everything at once.

Mr. CANTLEY: I know, Sir Henry (Thornton), but fencing is a matter that you can get done by contract, or do it yourself.

Sir HENRY THORNTON: Yes, but you have to pay for it.

Mr. CANTLEY: There is very little except advice you can get in this country that you do not pay for.

Sir EUGENE Fiset: What some of us are afraid of is the fact that we are facing a yearly deficit on the eastern lines, and we are afraid the Canadian National will not give us the same consideration, due to that fact, which the other parts of the line are receiving.

Sir HENRY THORNTON: As a matter of fact, General, that is something you have got to leave to the fidelity of the officers who administer the property. As far as the Canadian National is concerned, I make no distinction between the Eastern lines and the Western Region. We try to administer the properties and spend that amount of money which we think we should spend, and go as far as we can in spending that money; but I cannot embark on a program in one year of fixing up all the fences.

Sir EUGENE Fiset: I suppose it does happen that you take a survey of this orphan part of the railway, your Eastern division, and when you do, I wish you would also look at the stations, consider what they look like, as far as paint is concerned, and also the provision of platforms, in order to satisfy the local population; perhaps not only from the point of view of the exact needs of the

[Sir Henry Thornton.]



railway, but basing your expenditures on the income that those small stations may bring in. I think they deserve some consideration.

Sir HENRY THORNTON: As a matter of fact, General, as far as my reputation as a railway officer is concerned, the Eastern lines do not enter into our accounts, and I could spend just as much money on those lines as I can get a government to approve, without any skin off my shin.

Sir EUGENE Fiset: I would be willing to help you in that.

Sir HENRY THORNTON: At the same time, I have got to exercise—and all our officers must exercise—reasonable prudence in the things which we suggest should be done. What is next, Mr. Chairman? The question is whether the Committee want to accept the explanation of the expenditures or not.

Sir EUGENE Fiset: I move the adoption of the report, sir.

Sir HENRY THORNTON: With respect to the expense items?

Hon. Mr. STEVENS: You cannot adopt the whole report. All you can adopt is the operating expenses which we have examined, and nothing more.

Hon. Mr. DUNNING: It is really not necessary to have such a motion at this stage, Sir Henry.

Sir HENRY THORNTON: No. You have merely examined one aspect of the Company's operations. If the Committee approves, I would suggest to the Chairman that we go on to something else. I would think that if we have got rid of expenses, perhaps the Committee would like to deal with revenue.

Hon. Mr. DUNNING: The income statement is on page 15.

Hon. Mr. STEVENS: Which book are you using now? The red book?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: We started with this (indicating).

Hon. Mr. DUNNING: That is an analysis of expenses.

Sir HENRY THORNTON: Shall we take the income statement on page 15 of the red report?

Hon. Mr. DUNNING: Operating revenue and expenses relative to the income statement.

Sir HENRY THORNTON: I would suggest that you turn to page 16 where you find detailed revenue. You have dealt with expenses, and now perhaps you would like to deal with revenue, and that will be found on page 16 of the red report.

The CHAIRMAN: The first is item 101.

Mr. HENRY: In 1927, the freight revenue was \$193,541,352.73.

Sir EUGENE Fiset: May I ask, Mr. Chairman, if the Eastern division is excluded from this?

Sir HENRY THORNTON: Yes.

Mr. HENRY: For six months.

Hon. Mr. DUNNING: There is a separate statement in the yellow book dealing with the Eastern lines.

The CHAIRMAN: Since the 1st of July, 1927, only.

Mr. JELLIFF: Can you deal approximately with the other?

Sir HENRY THORNTON: That will be developed. If you will let Mr. Henry run through with this, the question you have in your mind will be developed.

Mr. HENRY: The freight revenue for the year ending December 31st, 1926, was \$191,787,465.76, or an increase of \$1,753,886. In percentage of dollars, the increase is .91 per cent. Revenue tons carried 2.18 per cent. Revenue ton miles .85 per cent.

[Sir Henry Thornton.]

Hon. Mr. DUNNING: These are all increases?

Mr. HENRY: These are all increases. Products of agriculture, tons carried 12,108,350. There was a decrease there of 276,256 tons. Products of animals, 1,508,526, a decrease of 24,525 tons. Products of mines, 20,419,870, an increase of 187,840.

The CHAIRMAN: Just a minute, Mr. Henry. You have this other book. Those items Mr. Henry is reading out are embodied in this.

Sir HENRY THORNTON: No, it is all in the red book.

Mr. HENRY: Products of forests, 10,004,902 tons, an increase of 412,195 tons.

Mr. McLEAN: On what page is that?

The CHAIRMAN: Page 30.

Hon. Mr. DUNNING: The commodities are on page 30, and the item is 101 on page 16.

Mr. HENRY: Manufacturers, miscellaneous and L.C.L., 16,489,410 tons, an increase of 991,286. The total tonnage carried was 60,531,058, or an increase over the previous year of 1,290,540.

Hon. Mr. STEVENS: You have not the corresponding statement of the revenue in dollars, under these heads?

Mr. HENRY: Not by the various classes of commodities, no; we have not.

Hon. Mr. STEVENS: That is not available, I suppose.

Mr. HENRY: It is not available.

Hon. Mr. STEVENS: Could it be?

Mr. HENRY: It could be, but it would take a lot of work.

Hon. Mr. STEVENS: It is not in your system of accounting?

Mr. HENRY: No. Passenger, in 1927, \$36,080,488. In 1926, \$35,570,671, or an increase of \$509,817.

Hon. Mr. DUNNING: This is the first time we have had an increase in passenger revenue for some time, Sir Henry.

Sir HENRY THORNTON: Yes.

Mr. HENRY: That is an increase of 1.43 per cent. The passengers carried decreased 1,048,936 or 5.27 per cent. The passengers carried one mile increased 48,641,911, or 3.67 per cent. This indicates a continuation of loss of short haul traffic due to motor bus, and private auto competition, and a substantial increase in long distance travel.

Hon. Mr. DUNNING: Less passengers, but carried them farther.

Mr. HENRY: 103. Excess baggage; there was a decrease there of \$5,046. The reason for that is that apparently the commercial travellers are reducing the quantity of samples carried. Sleeping cars, 1927: the increase there is \$114,534. New services such as "The Confederation," the "Maple Leaf" and the "Acadian" were the cause of this. 105, Parlor and Chair cars. The increase is \$16,000. The same explanation is due, with respect to the trains "Confederation," "Maple Leaf" and "Acadian." Mail, the increase there is only \$5,535. Trains Nos. 11 and 12 Quebec to Cochrane increased from three to six trips weekly; heavier overflow traffic on Ocean Limited and Maritime express and Montreal-Toronto trains, and increased train service on western region. The Grand Trunk Western lines reported a decrease of \$44,000 due to reduced train service.

Hon. Mr. STEVENS: At that point, do you carry, through mails, trans-continental, and trans-oceanic? Have you a through service from the Pacific coast, say to Europe?

[Sir Henry Thornton.]



Sir HENRY THORNTON: What is the answer to that, Mr. Weldon?

Mr. WELDON: No, I would say not. The transcontinental mails are mainly carried by our competitor.

Mr. HENRY: Express. The increase is \$389,471. The increase is in fish traffic, Manitoba lakes, \$47,000; fish traffic Saskatchewan lakes, \$13,000. Interchange with Alberta Government Railways, \$43,000. Increase in the Rouyn mining district, \$45,000. Increase in general merchandise traffic, \$250,000. 108, other passenger trains; \$139,000 of an increase. The 1926 accounts included a debit adjustment with the Pullman Company of \$130,000, increasing the maximum average earnings per car before division from \$7,500 to \$9,000 for three years to June, 1925.

Hon. Mr. STEVENS: Just at that point, do I gather that you make a loss in the handling of the pullman cars?

Sir HENRY THORNTON: No, there was an adjustment of our accounts with the Pullman Company of \$130,000, and we increased their compensation, as did all the other railways. I am not sure that I quite get your point there, Mr. Stevens.

Hon. Mr. STEVENS: My point is this: I must simply gather what I hear. There was an adjustment with the Pullman Company, I presume on account of hauling the Pullman cars. There is a division I know in the ticket. Does the hauling of Pullman Company cars result in a loss to the National Railways?

Sir HENRY THORNTON: No. We are dealing now only with revenue.

Hon. Mr. STEVENS: Quite so, but I notice here there is a debit in 1926 of \$48,000.

Sir HENRY THORNTON: Perhaps Mr. Cooper will explain that.

Mr. COOPER: We have an agreement with the Pullman Company whereby the additional earnings there, \$7,500, were divided between the Pullman and the Canadian National. We made a new arrangement, whereby that \$7,500 was lifted to \$9,000.

Hon. Mr. STEVENS: That would be to the detriment of the Canadian National?

Mr. COOPER: The adjustment was to the detriment, yes. That does not say the result of the Pullman service was to the detriment of the Canadian National.

Hon. Mr. STEVENS: It is only idle curiosity on my part, but it strikes me that the Canadian National might consider whether the policy of continuing with the Pullman Company or installing its own sleepers is the best.

Sir HENRY THORNTON: Our policy in that respect was this, Mr. Stevens. We operate our own sleeping and parlor cars throughout routes which are within the boundaries of the Dominion of Canada. We operate Pullman service between points in Canada and points in the United States. That is mostly a heritage that has come to us from other lines, with respect to our services between New York and Montreal, and between Toronto and New York. Of course, we are practically obliged to use Pullman services because those cars pass over other railways than our own, and our mileage is relatively small. So that our policy really has come to this: that we operate our own sleeping cars and parlor cars within the Dominion of Canada, but where we are involved with other railways, and where the service passes beyond the boundaries of the Dominion of Canada, we employ the Pullman service, and our arrangements and contracts with the Pullman Company are the same as those which are approved by the American Railway Association, and the other railways on the North American continent.

[Sir Henry Thornton.]

Hon. Mr. STEVENS: They are all on a par.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: But they have increased—what shall I say—a maximum of \$9,000?

Sir HENRY THORNTON: That was due to a general adjustment that was made in the relations between the Pullman Company and the other railways on the North American Continent, through the American Railway Association. It was to compensate the Pullman Company for the additional cost they had been under; their wages had gone up, and other costs as well, just as they had gone up with us, and it was considered a reasonable thing to do.

Mr. JELLIFF: You are at No. 108.

Mr. HENRY: Other passenger trains.

Mr. JELLIFF: I do not get this yet. You have revenue in 1927 at so much, then for 1926 you have it in a different kind of type, which led me to think there was a loss in your presentation.

Mr. COOPER: In 1926 there was a debit balance.

Mr. JELLIFF: So that there was a gain in the addition of the two items?

Mr. COOPER: Yes. The gain was \$196,000; that is right.

Mr. HENRY: Account No. 109, Milk, increase \$3,888.33. That was new traffic from Eastern Townships and Island Pond to B. and M. points.

Account No. 110, Switching. The increase is \$62,609.67, due to a general increase in switching throughout the system except at Detroit, where we switched less coal ex D. and T.S. line.

Account No. 111, Special Service Train, a decrease in 1926 of \$12,602.26. This account covers revenue from circus trains, from newspaper and other special trains, and naturally varies from year to year.

Account No. 113, Water Transfers, Freight, an increase of \$8,040.88.

Hon. Mr. STEVENS: What is that small item?

Mr. HENRY: That is due to the Okanagan Boat Line Local Traffic. The service commenced in January, 1927.

Hon. Mr. STEVENS: Are you making any money on that traffic?

Sir HENRY THORNTON: I should think we probably were.

Hon. Mr. STEVENS: Is it off?

Sir HENRY THORNTON: Is what off?

Hon. Mr. STEVENS: The traffic now, the service?

Sir HENRY THORNTON: No, I do not think so.

Hon. Mr. STEVENS: You said you were.

Sir HENRY THORNTON: I meant to say we are. You asked me, are we making any money, and I said we are.

Hon. Mr. STEVENS: I thought you put it in the past tense.

Sir HENRY THORNTON: I did not mean to do so.

Mr. HENRY: Account No. 114, Water Transfers, Passenger, an increase of \$16,321.45. The Okanagan Boat Line Service, commenced January 1927, is responsible for \$4,701.90, and the additional two vessels, Grand Trunk Milwaukee Car Ferry Service across Lake Michigan is responsible for \$11,322.57.

Account No. 115, Water Transfers, Vehicles and Live Stock, an increase of \$15,361.14. There was an increase on the Prince Edward Island Ferry in the six months to June of \$724.64, and on the Grand Trunk Milwaukee Car Ferry, for autos on their own wheels, \$14,636.50.

Account No. 116, Water Transfers, Other, an increase of \$4,865.22. That was on the sale of berths on the Grand Trunk Milwaukee Car Ferry.

[Sir Henry Thornton.]



Account No. 131, Dining and Buffet, an increase of \$139,156.45. That was due to new services, such as the Confederation, the Maple Leaf and the Acadian trains, special things, such as the Mining Congress, and a general increase in long distance travel.

Account No. 132 is about the same; there is no explanation there.

Account No. 133, Station, Train and Boat Privileges, an increase of \$10,689.07.

	1927	1926	Increase
Canada Railway News Company.. ..	\$112,073 49	\$105,261 25	\$6,812 24
Parcel Lockers, Toilets, etc. . . . .	26,957 16	24,493 95	2,463 21
Insurance Commissions.. . . .	12,430 38	11,587 30	843 08

Account No. 134, Parcel Room, there is a decrease of \$10,418.19, due to the parcel room at Toronto being transferred to the Toronto Terminal Company.

Account No. 137, Demurrage, a decrease of \$58,641.56. The decrease is on Grand Trunk Western Lines, and is due to less congestion and delay at Pontiac and Detroit.

Account No. 139, Grain Elevator, a decrease of \$47,828.19, due to less grain handled through the Portland and Tiffin elevators, and less held in storage at Saint John in the first half of the year.

Account No. 141, Power, an increase of \$6,523.22, due to increased charges against the Armour Grain Elevator and others at Depot Harbour.

Account No. 142, Rents of Buildings, etc., an increase of \$18,378.07. In 1927 we obtained higher rentals for various miscellaneous properties owned by the Canadian National Railways.

Account No. 143, Miscellaneous, a decrease of \$3,961.96.

Hon. Mr. STEVENS: What is included in that item? There are some rather large items.

Mr. HENRY: The International Bridge Tolls, the Victoria Jubilee Bridge Tolls, the Port Arthur Coal Dock, the Boarding Car Department, Wharfage at Halifax, Portland, etc., Labour and Handling, Cleaning and Disinfecting Cars, Heating Cars, Sale of Cinders, Paper, Water, Old Wood, etc., Detouring Trains for other Companies.

Account No. 151, Joint Facility, Credit, an increase of \$94,460.69. This increase is due to changed conditions at the Toronto Union Station. This account now receives credit with our Wheelage proportion of gross receipts from restaurant, lunch counter and parcel room. Previous to August 11, 1927, the net profit was credited to Account 133, and C.P.R. proportion recharged through Account 152.

Account 152, Joint Facility, debit, \$30,534.62.

Mr. CHAPLIN: Is the C.N.R. a stockholder in the Old Suspension Bridge at Niagara?

Mr. HENRY: I do not think so.

The CHAIRMAN: No.

Mr. CHAPLIN: It is not a shareholder at all?

Sir HENRY THORNTON: No.

Mr. HENRY: Account 152. The Toronto Union Station, as explained above, is responsible for \$8,832.59, and certain traffic formerly considered joint with the Wabash and accounted for through this account, now considered competitive, and accounted for directly through appropriate revenue primary account, \$21,000 of a decrease.

Sir HENRY THORNTON: That represents all the items of revenue. We have now dealt with the revenues and the expenditures. We can take up the estimates now, Mr. Dunning?

[Sir Henry Thornton.]

Hon. Mr. DUNNING: Unless there is something in connection with the accounts, unless they want to go over some revenues on the Eastern Lines.

Sir HENRY THORNTON: We have still the revenues on Eastern Lines. Does the Committee wish to go over those?

Hon. Mr. DUNNING: They are on page 3?

Sir HENRY THORNTON: On the yellow sheets. Revenue on Eastern Lines. Go ahead, Mr. Henry.

Mr. HENRY: Account 101, Freight. There was a decrease of \$582,510. There was a decrease of \$931,809 as the result of the 20 per cent rate reduction under the Maritime Freight Rates Act. Had such reduction not been put into effect, there would have been an increase of \$349,299. The difference between these two is \$582,510.

Account 102, Passenger, a decrease of \$32,968. There was an increase of \$3,730 in Passengers Carried, but a decrease of \$3,105,856 in Passengers Carried One Mile, or 2.8 per cent. That is the reason for the decrease.

Account 104, Sleeping Cars, a decrease of \$19,698. This is chiefly due to the new train "Acadian", which was put on from July 1st to September 26th.

Account 107, Express. There was a decrease of \$124,187. In 1926 the Eastern Lines received 14.35 per cent of the System Express Revenue. This was an arbitrary apportionment. Since July 1st, 1927, they have received 100 per cent of the local, and mileage pro rate of through traffic, approximately 12.38 per cent. This has reduced Eastern Lines Express Revenues by \$140,000, and correspondingly increased Canadian National. Against this decrease we have an increase of \$16,000 in General Traffic.

Account 114, Water Transfers, Passengers, an increase of \$7,101. This revenue represents fares of local passengers handled on the Prince Edward Island Ferry. In 1926 this revenue was not separated from passenger revenues, and was included in Account 102.

Account 115, Water Transfer, Vehicles and Livestock, an increase of \$4,617. Increased revenue from Transportation of Automobiles on the Prince Edward Island Ferry, occasioned by more tourist traffic.

Account 131, Dining and Buffet, an increase of \$6,902. That is due to the train "Acadian".

Account 137, Demurrage, an increase of \$13,746. In August, 1926, this account is charged with \$10,000 cancelling demurrage assessed at Pictou, N.S., due to failure of railway to more promptly release cars. There was no corresponding charge in 1927.

Mr. HENRY: The next is No. 139, Grain Elevator. This shows an increase of \$5,864; increased revenue at the St. John elevator.

Sir HENRY THORNTON: That covers an item of revenue for the Eastern Lines.

Hon. Mr. STEVENS: Sir Henry, is the revenue from the Central Vermont, and other lines, included?

Sir HENRY THORNTON: You have everything but the Central Vermont. The Central Vermont is under receivership, and has not been included.

Hon. Mr. STEVENS: Are we going to have that?

Sir HENRY THORNTON: We can get it, yes.

Hon. Mr. STEVENS: Why not round off this income, or this revenue matter at this point, and put in the Central Vermont figures?

Hon. Mr. DUNNING: Is the Grand Trunk Western included in this?

Sir HENRY THORNTON: Oh, yes. There is just the Central Vermont omitted, and that is in the hands of the receivers. That is the reason we did not bring these figures forward this year.

[Sir Henry Thornton.]



Hon. Mr. STEVENS: What is the objection?

Sir HENRY THORNTON: We can get them, but there is nothing we can do with them.

Hon. Mr. STEVENS: I think we ought to have them. It is a matter of rounding off the whole system.

Sir HENRY THORNTON: We can get those figures.

Hon. Mr. DUNNING: You have not them with you this morning?

Sir HENRY THORNTON: No.

Mr. McLEAN (Melfort): Is that due to the fact that you are not operating the road yourselves?

Sir HENRY THORNTON: The road is in the hands of the receivers. It is out of our hands, technically.

Mr. JELLIFF: Could you give us the approximate figure?

Sir HENRY THORNTON: We can give you all that to-morrow.

Hon. Mr. DUNNING: It does not make any difference to the general accounts, under the present situation.

Hon. Mr. STEVENS: I do not see why there should not be a frank statement about it.

Sir HENRY THORNTON: There is no reason at all. I only left them out because I did not think you would want to be bothered with them, as there is nothing we can do about them.

Hon. Mr. STEVENS: I do not suppose we can do much with any of these, but we could have the pleasure of looking them over.

Sir HENRY THORNTON: We will give you that pleasure to-morrow.

Hon. Mr. STEVENS: I would like to take this opportunity of complimenting your staff on the splendid manner in which they have got these accounts together.

Sir HENRY THORNTON: We are getting experience. I will be delighted to have you look at these figures to-morrow morning. I would like to ask you if I could be excused to-morrow morning. Mr. Henry, and the Vice-Presidents will be here to answer such questions as you may want to put to-morrow. We have a dinner of our employees' club at Toronto to-morrow night. It is a gathering of all of our staff of employees, and sometime ago, before I could tell what the meetings of this Committee would be, I promised to go to that dinner. I would like very much to go, not that it is essential one way or the other, but it tends to encourage the esprit de corps of the organization. So, with your permission, I would like to be excused to-morrow in order to attend that convention at Toronto, but I will be back here Thursday morning.

Hon. Mr. DUNNING: I understand the Immigration Committee have called you for Thursday morning.

Sir HENRY THORNTON: Yes, but I do not imagine that will take very long.

Witnesses retired.

The Committee adjourned until Wednesday, April 18th, at 11.00 a.m.







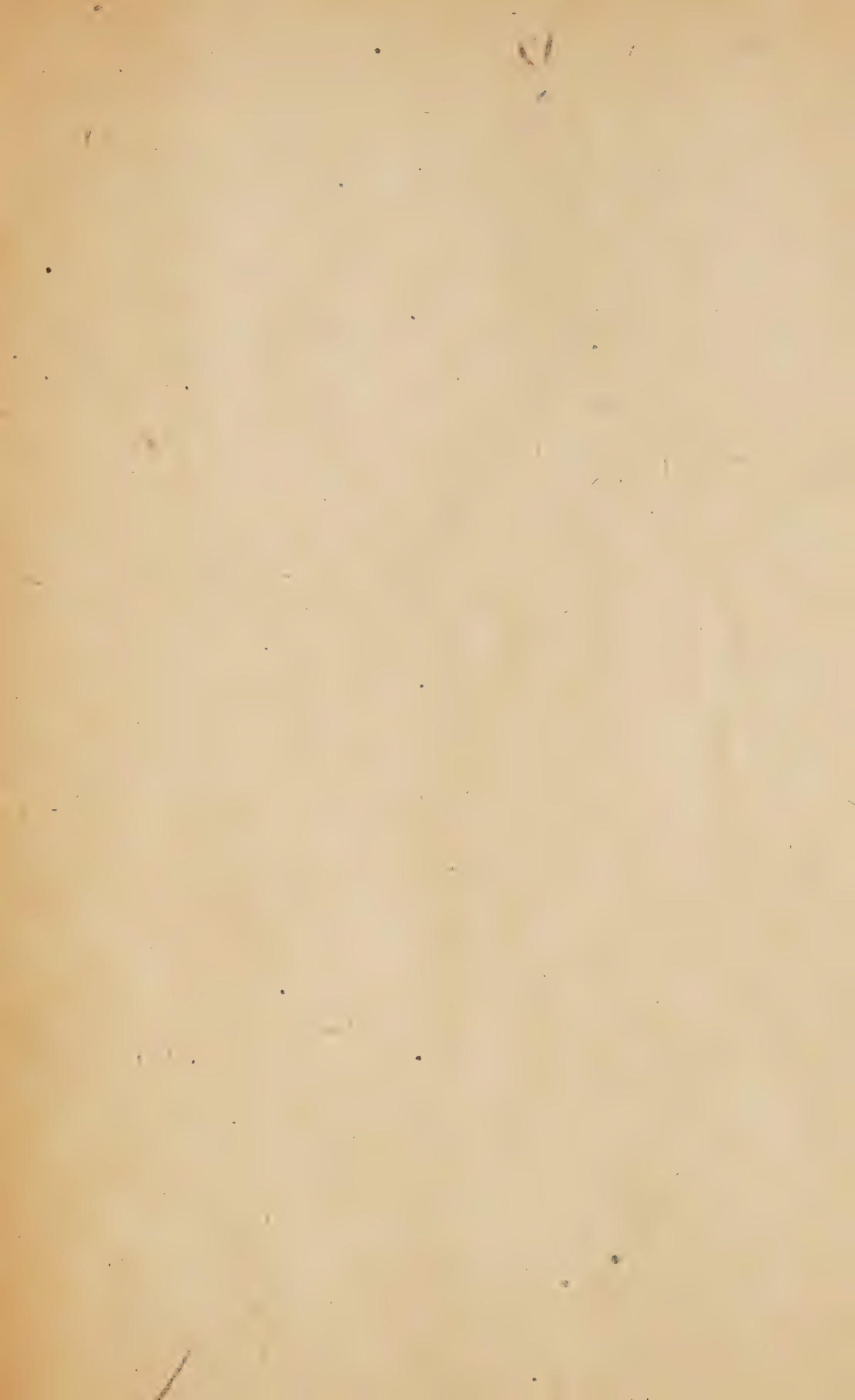
















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Canada Railway and Shipping  
Standing Committee 1928

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SESSION 1928  
HOUSE OF COMMONS

APR 28 1928  
RECEIVED

SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3—APRIL 18, 1928

WITNESS:

Mr. R. A. C. Henry, Director, Bureau of Economics, Canadian National  
Railways.

OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1928





## MINUTES OF PROCEEDINGS

ROOM 424, HOUSE OF COMMONS,

WEDNESDAY, April 18, 1928.

The Select Standing Committee on Railways and Shipping, owned, controlled and operated by the Government, was called to order at 11 o'clock, a.m., Mr. Goodison, the Chairman, presiding.

*Members present:*—Messieurs Cantley, Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne and Stevens (Hon. H. H.)—12.

In the absence of Sir Henry Thornton, Mr. R. A. C. Henry, Director, Bureau of Economics, acted as chief witness. Mr. S. J. Hungerford, Vice-President, Mr. T. H. Cooper, General Auditor, and other members of the official staff of the Canadian National Railways, were in attendance to assist in giving answers to questions by members of the Committee; also representatives from the Department of Railways.

On opening the meeting, the Chairman stated that Mr. Neill, M.P., who was then present, had requested permission to address a few words to the Committee. Permission granted.

Mr. Neill's remarks were in reference to a desired guaranteed coal rate shipped from Vancouver Island in the Government Merchant Marine ships by way of the Panama Canal to Montreal, on a somewhat similar basis as the proposed rate from Alberta to the Eastern Provinces, as announced some weeks ago in the House.

After considerable discussion, Mr. Neill was assured that the matter was under investigation and would be fully considered.

Central Vermont Railway matters were again taken under consideration with regard to revenue and expenses.

Mr. Henry submitted a statement for the year ending December 31, 1927, as compared with 1926, Income Account.

General discussion on this matter. Many questions were asked by Mr. Harris, and answered by Mr. Henry and other officials of the railway.

Page 34 of the Annual Report of the Canadian National Railway System, which shows the investments in the Central Vermont Railway, was by request of Mr. Stevens ordered to be incorporated in the record.

Further discussion on Central Vermont Railway matters.

Resumed consideration of the Annual Report at page 21, under the heading of "Expenditures, less Retirements, during the year 1927, Applicable to Investment in Road and equipment."

*Road:* Items under this heading, from 1 to 23 were taken up separately and considered.

The Chairman announced that it was one o'clock. The question of the next meeting was taken up and it was decided that the Committee would meet again to-morrow, Thursday, at 11 a.m.

The Committee adjourned.





## MINUTES OF EVIDENCE

COMMITTEE ROOM 425,

HOUSE OF COMMONS,

WEDNESDAY, April 18, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: We will come to order, please. Mr. Neill has requested permission to speak a few words, and we will hear him now.

Mr. NEILL: Mr. Chairman, I will only detain the Committee a very few minutes, but I want to bring a small matter before them. The members of the House will remember that a few weeks ago when the Minister of the Interior announced the policy of the government by way of guaranteeing a coal rate from Alberta to the eastern provinces, I put a question on the order paper asking if, in view of that fact, the government would be prepared to give an equal guaranteed rate on coal shipped from the Vancouver Island coal mines in the Government Merchant Marine ships by way of the Panama Canal to Montreal. The Minister of the Interior, perhaps for want of a better answer, made the rather unusual statement that they had not been asked for such a rate. Of course, it is against common sense to think that the handicapped coal industry of British Columbia would not have their hands out for the same concession given to Alberta, because British Columbia is in even a worse position. However, I want the Committee to note the very much implied promise given on that occasion that the rate had not been asked for and therefore had not been given, the inference being that if we asked for it, we would be in line, the only reason given being that we did not ask for it. I now submit the formal request. I have a letter here from the biggest colliery on Vancouver Island, and I will quote a couple of sentences:—

I note that in the House of Commons on the 28th of March, you brought up the question of preferential ocean rates being given to coal mines on Vancouver Island, for shipments of coal to Montreal. I think there is quite a possibility of business developing on the lines of your suggestion. You might take the matter up with the Canadian Government Merchant Marine, in order that I may have some rate to work upon. If a satisfactory rate can be obtained for our Comox coal, which is an excellent furnace coal, I will immediately get in touch with the Distributing Agencies in Montreal, and see if we can arrange to market our coal in that city. Of course, it would be necessary to make all shipments of coal during the summer months, and it is quite possible that this would suit the Canadian Government Merchant Marine.

That is all the quotation. If we can get a rate like that I believe it will greatly benefit us and benefit the coal consumers in Montreal.

I might mention that it would be a less costly rate to the government because the limit is closer. I believe the government will be heavily drawn upon in Alberta if the rate is to be a success. In our case it would require only a comparatively small guarantee to make it a success. It would be in fact quantity shipments; it would be shipped by the shipload, whereas the ships out there now are sometimes running with half freight. This would be a

guaranteed source of freight, which could be counted upon, and not in a small way. They could load the entire ship out there in a very few hours with the special bunkering arrangements they have for that purpose.

I would like to leave this idea with the Committee and the officials of the company which runs these ships, and ask if a rate cannot be worked out which would be somewhere in line with the guarantee given to the Alberta people. This, I believe, would be a constant source of revenue to the company and a guarantee to our Vancouver Island coal mines.

Hon. Mr. DUNNING: Mr. Henry, what have you to say, aside from the question of guarantee, as to the Merchant Marine taking that class of business? Of course, any arrangement at all similar in character to the arrangement with Alberta is a matter of government policy, but what have you to say as to whether the Merchant Marine can give any information as to the practicability of such a trade?

Mr. HENRY: With regard to that: our Merchant Marine have looked into it to a certain extent and a little memorandum has been prepared. Really, we have not any boats which are available for that service at the moment. Boats which are now in the coastwise service are fully employed on other things.

Mr. NEILL: Is there not now a service from Vancouver to Montreal?

Mr. HENRY: There is, but the boats in that service are fully occupied with cargoes of lumber east-bound.

Mr. NEILL: All loaded to capacity?

Mr. HENRY: All loaded to capacity.

Hon. Mr. DUNNING: Are these boats suitable for carrying coal, Mr. Henry? What type are they?

Mr. TEAKLE: Because of their 'tween decks they are not properly fitted as coal carriers.

Hon. Mr. DUNNING: Have you any boats at all suitable for that?

Mr. TEAKLE: We have two 4,400-tons boats without 'tween decks which we could use, but we consider these boats would be so expensive to operate that the coal industry could not stand it.

Mr. NEILL: Why would a 4,400-ton boat be expensive to operate? Is it of too small a capacity?

Mr. TEAKLE: That is the answer.

Mr. NEILL: Can anyone tell me what size of boat is properly fitted for carrying coal?

Mr. TEAKLE: Ours are now operated in the general cargo trade. All of our ships but these two are fitted with 'tween decks for the proper handling of general cargo, and it is that general cargo trade they are now operating. Both of these small boats, of 4,400 tons, were used last year exclusively for carrying coal between the mainland, Sydney and Newfoundland. They are not fitted with 'tween decks.

Mr. NEILL: Are they available?

Mr. TEAKLE: They are available, but I think because of their small size and the length of time necessary to make the voyage from Vancouver and back again, the expense would be so great as to make it impossible for the coal industry to stand it.

Hon. Mr. DUNNING: You will have the matter looked into further, Mr. Henry?

Mr. HENRY: Yes, it is under investigation now.

Mr. NEILL: Thank you.



Hon. Mr. DUNNING: Mr. Chairman, when we adjourned yesterday it was understood that we would come back to-day with the revenue and expenses of the Central Vermont, in which Mr. Stevens was interested.

Mr. HENRY: We have here a statement of the income account of the Central Vermont Railway for the year ending December 31st, 1927, as compared with 1926. As was explained yesterday the floods which occurred in November of last year necessitated the Central Vermont being placed in the hands of a receiver.

Hon. Mr. DUNNING: This was for the period when it was under operation by the Canadian National Railways?

Mr. HENRY: Yes; well, really up to December 12th.

Hon. Mr. DUNNING: Mr. Henry, this statement does not make it clear that it is only for a ten months' period.

Mr. HENRY: It is for a twelve months' period, Mr. Dunning.

Hon. Mr. DUNNING: For part of that time it was in the hands of a receiver.

Mr. HENRY: Only from the 12th of December. The flood occurred in November, but the operations were carried on by the Central Vermont until the 12th of December.

Hon. Mr. DUNNING: I think if you summarize the situation, that will be sufficient.

Mr. HENRY: The operating revenue for 1927 was \$8,504,642.16 as compared with \$9,382,484.74. Actually those revenues are only for ten months because of the floods which necessitated the diversion of through traffic.

The operating expenses in 1927 were \$7,858,175.39 as against \$7,640,647.65 the previous year. The tax accruals were \$235,798.78, as against \$225,675.45, leaving a railway operating income in 1927 of \$409,646.41 as against \$1,514,756.97. Had the flood not occurred, we were confident that the operations this year would have been an improvement over the previous year.

The CHAIRMAN: Does anybody wish to ask any further questions with regard to this?

Hon. Mr. STEVENS: I do not wish to ask any questions which will embarrass the railway in its present position, and I do not think this one will. What is the estimate of what it will cost to put this railway back into normal operation.

Mr. HENRY: Approximately \$3,500,000.

Hon. Mr. STEVENS: That includes replacement and new construction?

Mr. HENRY: The operation may result in a little deficit in addition to that. This is reconstruction.

Hon. Mr. STEVENS: That is to be expected under the circumstances.

Hon. Mr. DUNNING: That sum is provided for by receiver's certificates under the receivership.

Hon. Mr. STEVENS: I understand that. When is it expected to get the road into operation again?

Mr. HENRY: Through service has been inaugurated but not to the extent we would wish. Probably in a month or two—about the 1st of June.

Hon. Mr. STEVENS: These operations are not included?

Mr. HENRY: No.

Hon. Mr. STEVENS: Nor are the operations for the eastern lines in the last half of last year?

Hon. Mr. DUNNING: No.

Hon. Mr. STEVENS: But the first half of last year of the eastern lines is included in the main statement?

Hon. Mr. DUNNING: Yes. From now on under the provisions of the Maritime Freight Rates Act, the law arranges that the system shall not lose money as a system east of Levis. The operations of the Maritime Freight Rate Act means that, so that while the eastern lines are outside the system, the country takes care of that deficit so that there is no concealed deficit, so far as the system is concerned, but the separate statement which we went over yesterday is brought down in order to show clearly how that law is working in its business effect.

Hon. Mr. STEVENS: That was kept entirely separate from the main accounting system of the company?

Hon. Mr. DUNNING: Yes, and it will be in the future. It could not be prior to the 1st of July last, when the Maritime Rights Act only came into effect on that date. There has been a little confliction in the accounting in making the comparisons, because of the six months' break, but in the future it will be quite clear-cut that the system as a system will come up to Levis on an even basis, the State making up the deficits east of that point.

Hon. Mr. STEVENS: In the past, has the Central Vermont been included in that main statement?

Mr. HENRY: Only last year.

Hon. Mr. DUNNING: It was brought into the income account?

Hon. Mr. STEVENS: 1927 is entirely outside of the main statement?

Hon. Mr. DUNNING: Entirely out of the picture.

Mr. McLEAN (Melfort): I notice this road did not quite carry itself last year. Is it expected that it will in the future, when it is renovated and rebuilt?

Hon. Mr. DUNNING: There is one point in connection with the Central Vermont which I know Sir Henry (Thornton) would urge if he were here. As some members of the Committee will remember, I had some doubt personally whether from a business point of view it was worth while keeping the Central Vermont. I must say that Sir Henry (Thornton) has convinced me that the value of that road to the system as a whole is unquestionable. The earnings, by themselves, in no way reflect the value of it to the system, because traffic originating on our Grand Trunk Western Lines and destined to the American seaboard passed through Canada, giving revenue to our lines in Canada, and our outlet to the seaboard to which the freight was consigned by the owners, is over this line, so there is an invisible contribution to the Canadian system which it would be very hard to measure in dollars and cents.

Hon. Mr. STEVENS: There are no Dominion government advances to this road?

Hon. Mr. DUNNING: No. There is this about it: of course, in so far as the Canadian National makes advances—

Hon. Mr. STEVENS: I see an item here "Interest on Dominion government advances".

Hon. Mr. DUNNING: This is a formal statement used in connection with the road generally.

Hon. Mr. STEVENS: It shows no interest in that.

Hon. Mr. DUNNING: No, there is none.

Sir EUGENE Fiset: But when this road is out of the receivership will it be part and parcel of the Canadian National?

Hon. Mr. DUNNING: It is bound to be a separately operated company. It is wholly in the United States.

Sir EUGENE Fiset: Will it be included in the future statements of the Canadian National?



Mr. HENRY: That will depend upon the reorganization, General.

Hon. Mr. DUNNING: I think we could say it would be accounted in the general statement in one of two ways, either its operating results in growth, or the deficit or surplus, as the case may be, included, as it was last year, as part of the system generally. Mr. Hungerford tells me that the hope is to work out of the receivership in such a way as to make the relationship precisely the same as the Grand Trunk Western, which is presently included in the accounts.

Mr. Chairman, if there is nothing further on the Central Vermont, I think I should say for the Railways that we appreciate very much the manner in which the authorities of the State of Vermont have met us in connection with the operation of the line. I think the officers of the Company would desire this to be made known.

Mr. HARRIS: Before we leave this, have we a statement of the assets and liabilities of this road, in this statement?

Mr. HENRY: To December 31st, 1927, no. We have it for 1926. The road is in the hands of a receiver.

Mr. HARRIS: Who owns the railroad now?

Mr. HENRY: The Court.

Hon. Mr. DUNNING: The Court of Vermont. We are, of course, the principal creditor.

Mr. HARRIS: We stand in the position of being the principal creditor?

Hon. Mr. DUNNING: Yes.

Mr. HARRIS: The matter is in the hands of the Court now, and it is a question for the Court?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: Under the law of the State of Vermont.

Mr. HARRIS: What is the Court?

Hon. Mr. DUNNING: It is a Federal Court we are using for the purpose.

Mr. HARRIS: That is what I wanted to get at.

The CHAIRMAN: Sir Henry (Thornton) stated when here that it was the expectation that it would be settled before long, and that the C.N.R. would be to all intents and purposes the owner, when they got through the receivership. The State officials are very, very favourable to the Canadian National Railways.

Mr. HARRIS: I understand it is a Federal Court.

Hon. Mr. DUNNING: With regard to the receivership, it is a Federal Court, but, with regard to the relationship of the Railway, it is a State matter. It is a State corporation.

Mr. HARRIS: Then the whole matter is in the hands of the State of Vermont?

Hon. Mr. DUNNING: No, the Federal Court, but the State of Vermont could make a great deal of difficulty in connection with the reorganization, if the State authorities were not favourable to Canadian National ownership and operation of their line. It is a State charter, in the first place, but the actual receivership is being carried on under a Federal Court, not under a State Court. There was a minority interest, you will remember, when we received it in previous years, a minority stock interest.

Mr. HARRIS: A State interest?

Mr. HENRY: No, a private interest.

Mr. HARRIS: As I understand it now, the real ownership of the railroad is vested in the Federal Court?

Hon. Mr. DUNNING: Until the receivership is over.

Mr. HARRIS: How long do you think it will be before the Canadian National, as principal creditor, will get back into the position of ownership?

Mr. HENRY: That is a matter of adjustment with the Court; I could not say. It might be three months, or it might be six months.

Mr. HARRIS: Is it the view of the C.N.R. that it would be real good business to get back into ownership, and take their loss?

Mr. HENRY: Yes.

Mr. HARRIS: What will be the probable loss?

Mr. HENRY: That cannot be ascertained until the receivership is discharged, Mr. Harris. It will depend upon the reorganization which results.

Mr. HARRIS: The road has been in operation a long time; have you any way of ascertaining the real value of the ownership?

Mr. HENRY: The only thing I can say in that regard is what the Interstate Commerce Commission have placed on it from the standpoint of the cost of reproduction. I think it is in the vicinity of \$22,000,000.

Hon. Mr. DUNNING: That is, the Interstate Commerce Commission?

Mr. HENRY: That is the Interstate Commerce Commission's valuation. The investment in road and equipment is a little bit higher than that, \$23,000,000, I think.

Mr. HARRIS: It will be a good deal higher by the time it is rehabilitated.

Mr. HENRY: That is a question of whether this rehabilitation is an operating charge or not.

Mr. HARRIS: Of course you have no statement of assets and liabilities?

Mr. HENRY: Not up to the 31st of December, 1927, but for 1926 I can give it to you.

Mr. HARRIS: Have you sinking funds to take care of depreciation and so forth?

Mr. HENRY: They had for a certain amount of depreciation.

Mr. HARRIS: What proportion?

Mr. HENRY: The accrued depreciation as of December 31, 1926, was approximately \$1,000,000.

Mr. HARRIS: That was not very much?

Mr. HENRY: That was largely a depreciation reserve set up on account of Equipment.

Mr. HARRIS: It would not be on fixed assets at all?

Mr. HENRY: There is only \$200,000 odd for roadway accounts.

Mr. HARRIS: What would the policy of the C.N.R. be with regard to replacements; would they all be listed in their balance sheets as assets, or would any proportion go in as replacements?

Mr. HENRY: Well, in that regard, so far as the Central Vermont is concerned, we are obligated to keep our accounts in a certain way. I suppose it is the Interstate Commerce Commission regulations that would govern.

Mr. HARRIS: They would govern in the operations in Canada?

Mr. HENRY: No. Well, we have a similar system of accounts; generally speaking they follow the same line.

Mr. HARRIS: In the final analysis, these betterments will go into capital account?

Mr. HENRY: In so far as we are able to convince the Interstate Commerce Commission that they are capital accounts.

Mr. HARRIS: Who decides that?



Mr. HENRY: That is the Accounting Officer of the Central Vermont Railway, or whatever it is called when it comes out of the receivership.

Mr. HARRIS: Would you care to express an opinion as to the efficiency with which the C.N.R. so far has been able to convince the Interstate Commerce Commission and also the like body here in Canada that certain renewals, replacements and betterments should go into Capital Account?

Mr. HENRY: In the United States, the Interstate Commerce Commission is fairly rigid; they review them, they send their Inspectors around to review the Divisions. They have to do that because of the provisions of the Transportation Act. But in Canada there is no such body, and therefore it is largely a question of an interpretation of the general rules underlying the accounting system.

Mr. HARRIS: Have you any view of that interpretation by the Dominion Government at all?

Mr. HENRY: The Dominion Bureau of Statistics have a classification of accounts which corresponds in the main with those issued by the Interstate Commerce Commission.

Mr. HARRIS: They have no authority to see that their classification is carried out?

Mr. COOPER: It is governed by the Railway Commission. They have issued road and equipment specifications, which we have to adopt and carry out.

Mr. HENRY: But Mr. Harris means the policing of it afterwards.

Mr. COOPER: We return to them. They do not go around and check it over.

Hon. Mr. DUNNING: But your Auditors, I presume, check you up, as against the regulations?

Mr. COOPER: These are regulations to specify the expenditures correctly, and in addition our accounts are certified by outside auditors, chartered accountants.

Sir EUGENE Fiset: There is no departmental audit, as far as the Department of Railways is concerned?

Hon. Mr. DUNNING: No. There is an independent audit, and the certificate is here. Of course the Bureau of Statistics has the same right to enforce their standards.

Hon. Mr. STEVENS: Would there be any objection, Mr. Chairman, to having the investments in the Central Vermont as set forth in this statement at page 34, put into the record at this point? They are here, and are public.

Hon. Mr. DUNNING: Not at all.

Hon. Mr. STEVENS: That is not any embarrassment, is it?

Hon. Mr. DUNNING: Not at all.

(Statement follows):

## A/C 706—INVESTMENTS IN AFFILIATED COMPANIES

Company	Amount outstanding	Amount own- ed by Can. Nat. System	Book value
	\$ cts.	\$ cts.	\$ cts.
<b>"A"—STOCKS—</b>			
Atlantic and St. Lawrence Rail Road Company.....	5,484,000 00	224 33	
The Belt Railway Company of Chicago.....	3,120,000 00	240,000 00	
Central Vermont Railway Company.....	3,000,000 00	2,191,100 00	
Chicago & Western Indiana Railroad Company.....	5,000,000 00	1,000,000 00	
The Detroit and Toledo Shore Line Railroad Company.	1,428,000 00	714,000 00	
The Ontario Car Ferry Company (Limited).....	500,000 00	250,000 00	
The Toronto Terminals Railway Company.....	50,000 00	25,000 00	
The Toledo Terminal Railroad Company.....	4,000,000 00	387,200 00	
Detroit Terminal Railroad Company.....	2,000,000 00	1,000,000 00	
Canadian Government Merchant Marine, Limited.....	460,900 00	900 00	
	25,042,900 00	5,808,424 33	1,516,785 91
<b>"B"—BONDS—</b>			
Atlantic and St. Lawrence Rail Road Company.....	3,000,000 00	3,000,000 00	
Central Vermont Railway Company 5% Gold Bonds...	12,838,300 00	4,229,300 00	
Chicago & Western Indiana Railroad Consolidated Bonds	49,298,666 67	2,187,000 00	
The Detroit and Toledo Shore Line R.R. Co. First			
Mortgage Bonds.....	3,000,000 00	587,000 00	
The Muskegon Railway & Navigation Co. First Mort-			
gage Gold Bonds.....	571,200 00	55,300 00	
The Toledo Terminal Railroad Company.....	5,241,000 00	137,000 00	
The Toronto Terminals Railway Co. 5% First Mortgage			
Bonds.....	12,582,100 00	6,291,100 00	
	86,531,266 67	16,486,700 00	16,456,591 80
<b>"C"—NOTES—</b>			
Central Vermont Railway Company.....			8,041,905 52
<b>"D"—ADVANCES—</b>			
Canadian Government Merchant Marine, Limited.....			565,760 57
Central Vermont Railway Company.....			12,850,343 15
Chicago & Western Indiana Railroad Company.....			638,114 66
The Muskegon Railway and Navigation Company.....			44,084 78
			14,098,303 16
Total Balance Sheet A/c No. 706.....			40,113,586 39

Hon. Mr. STEVENS: It might be well to complete the record with regard to the Central Vermont. I want to ask a question, which Mr. Henry can answer and clear up. On page 34 of the Canadian National Railways Report for 1927, the heading is "Investments in Affiliated Companies; (a) Stocks." Then there is an item, Central Vermont Railway Company, amount outstanding \$3,000,000, amount owned by the C.N.R. System \$2,191,000. Now, do I understand that that is ordinary stock of the Railway?

Mr. HENRY: That is the control which the C.N.R. exercised over the Central Vermont prior to the receivership.

Hon. Mr. STEVENS: That is the ownership of stock?

Mr. HENRY: That is the stock ownership.

Hon. Mr. STEVENS: Next we have under bonds, Central Vermont Railway 5 Per Cent Gold Bonds, amount outstanding \$12,838,000; owned by the C.N.R. \$4,229,300?

Mr. HENRY: That is correct.

Hon. Mr. STEVENS: Might I ask this; there is \$12,000,000 outstanding. Do I understand that the \$4,229,000 is held in the treasury of the C.N.R. as an asset?

Mr. HENRY: That is right.



Hon. Mr. STEVENS: Farther down, under (c) we have an item, Notes, Central Vermont Railway, \$8,041,905. Does that mean advances to the Central Vermont Railway?

Mr. HENRY: That means advances to the Central Vermont Railway, for which notes were received.

Hon. Mr. STEVENS: Secured by notes of the Central Vermont?

Mr. HENRY: Yes.

Hon. Mr. STEVENS: And held in the treasury of the Canadian National?

Mr. HENRY: Held in the treasury of the C.N.R.

Hon. Mr. STEVENS: Let me go a step farther.

Mr. HENRY: Under (c) I think that relates to the Southern New England, does it not, Mr. Cooper?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: I did not get that.

Mr. HENRY: That relates to advances on the Southern New England and in turn advances to the Central Vermont.

Hon. Mr. STEVENS: But it is all in the receivership?

Mr. HENRY: Yes.

Hon. Mr. STEVENS: Then under (d) we have, Advances to Central Vermont Railway Company \$12,850,343.

Mr. HENRY: Those are advances made by the C.N.R. and the old Grand Trunk Railway from time to time to the Central Vermont proper, for other purposes than the Southern New England.

Hon. Mr. STEVENS: Let me ask this; does the \$12,850,000 and the \$8,000,000, making \$20,850,000, represent loans or advances to the Central Vermont Railway?

Mr. HENRY: That is correct.

Hon. Mr. DUNNING: Much of that, Mr. Stevens, occurred before the Canadian National came in.

Hon. Mr. STEVENS: I am not asking this in a spirit of criticism; I only desire to get the facts.

Hon. Mr. DUNNING: I just want to get the picture clearly before the Committee. This goes back to the days of the old Grand Trunk, before the days of the Canadian National.

Hon. Mr. STEVENS: Then there are the Central Vermont bonds. Those bonds represent advances as well?

Mr. HENRY: Well, they were bonds which the old Grand Trunk had acquired, and exchanged for advances, for betterments and so on.

Hon. Mr. STEVENS: Roughly, the investment would be \$25,000,000?

Mr. HENRY: Yes, \$26,000,000; it is nearly \$27,000,000, a little over \$27,000,000, with the stock.

Mr. COOPER: That is, taking all the stock.

Hon. Mr. STEVENS: I left the stock out.

Hon. Mr. DUNNING: I am willing to put it in.

Hon. Mr. STEVENS: There is \$25,000,000, represented in bonds, notes and advances?

Mr. HENRY: That is right.

Hon. Mr. STEVENS: And \$2,191,000 of stock?

Mr. HENRY: That is correct.

Hon. Mr. STEVENS: That represents the total investment in the Central Vermont.

Mr. HENRY: Yes.

Mr. JENKINS: Are those 5 Per cent Gold Bonds in the hands of the stockholders?

Mr. HENRY: The balance.

Mr. JENKINS: These people would only realize a fraction?

Mr. HENRY: Well, they are guaranteed by the Grand Trunk Railway Company of Canada.

Mr. JENKINS: Those bonds would bear 5 per cent?

Mr. HENRY: They would bear 5 per cent.

Mr. JENKINS: And they will continue to do so?

Mr. HENRY: It depends upon the outcome of the receivership.

Mr. JENKINS: Is the whole \$12,800,000 guaranteed?

Mr. HENRY: Oh, yes.

Hon. Mr. STEVENS: That involves the contingent liability of an additional \$8,000,000?

Mr. HENRY: They are being taken up, as a matter of fact.

Hon. Mr. STEVENS: That would mean \$33,000,000?

Mr. HENRY: That would mean \$33,000,000, yes.

Hon. Mr. STEVENS: And \$2,000,000 worth of stock?

Mr. COOPER: The \$2,000,000 of stock does not represent a cash investment.

Hon. Mr. STEVENS: That is the reason I did not include them in the summary I was making.

Mr. JELLIFF: Are the notes and advances secured in any way?

Mr. HENRY: They are secured merely by notes of the Central Vermont; there is no collateral, other than the Central Vermont notes.

Hon. Mr. DUNNING: It strengthens our position before the court.

Mr. McLEAN (Melfort): What is the total estimated value of the road now, \$22,000,000, did you say?

Mr. HENRY: I said that the investment in road and equipment was \$23,000,000.

Mr. McLEAN (Melfort): Some of that would be dissipated by the flood, I suppose?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: That is an important point, Mr. Stevens. I was just trying to get it straightened out, before I put the question, but perhaps I can get it straighter by putting the question. Mr. Henry, the Central Vermont system was improving year by year in its financial showing?

Mr. HENRY: There is no question of that.

Hon. Mr. DUNNING: I remember that Sir Henry indicated that there was a likelihood of the Central Vermont carrying itself during last year, 1927. Will you explain to the Committee just what was meant by that?

Mr. HENRY: That means that it would have paid the interest charges, and all advances made by the Canadian National Railway, except that \$8,000,000 made on behalf of the Southern New England. The arrangement there, made by the old Grand Trunk, was that that should not pay interest until the Southern New England was in operation and earning interest.

Mr. DUFF: Did the C.N.R. pay cash for that \$4,429,000 of bonds, or were they additional assets taken over when you acquired the Grand Trunk?

Mr. HENRY: There were certain four per cent securities in the hands of the old Grand Trunk, totalling about the same amount, and they were offered



for exchange in 1920. They represented advances which the Grand Trunk had made from time to time, for betterments to physical property rather than anything else.

Mr. DUFF: I am trying to find out if it is actually cash advanced by the C.N.R., or if it was part of the assets taken over from the Grand Trunk?

Mr. HENRY: It was part of the assets taken over.

Mr. DUFF: It is not cash advances?

Mr. HENRY: \$4,000,000 is not cash advanced, but represents first mortgage bonds held in the Treasury, for which the old Grand Trunk paid cash.

Mr. DUFF: When you bought the Grand Trunk did you have to pay \$4,000,000 for those bonds?

Mr. HENRY: They were simply in the general assets.

Mr. DUFF: You did not pay cash for them?

Mr. HENRY: The Government acquired the stock of the Grand Trunk, and inherited all the assets and liabilities.

Mr. JELLIFF: It showed your interest in the road, anyway?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: There is no doubt that the condition of the Central Vermont, under Canadian National management, has improved as compared with the old days of Grand Trunk management.

Hon. Mr. STEVENS: It seems to be steadily improving.

Hon. Mr. DUNNING: Yes.

Mr. HENRY: The investment I gave here does not represent all the assets of the Central Vermont; it has a transportation company as well.

Mr. HARRIS: I would like to get a statement of the assets and liabilities, if possible.

Mr. HENRY: Could we give them, as of the date of the receivership?

Mr. COOPER: No, you would have to ask the court for them.

Mr. HENRY: We would have to apply to the court for that, Mr. Harris.

Hon. Mr. DUNNING: We have the statement for the 1926 assets and liabilities.

Mr. HARRIS: I was just following Mr. Henry's statement.

Mr. HENRY: We could easily put that on the record. I have the report as of December 31st, 1926.

Mr. HARRIS: The remarks you made are based on that particular statement?

Mr. HENRY: No, the remarks that have been made with respect to the Canadian National investment, have been made from our report which has been filed.

Mr. HARRIS: I do not see how you are able to give us an income statement, and, at the same time, you are not able to give us a statement of the assets and liabilities?

Mr. HENRY: The reason for that is because the books are in the custody of the court.

Mr. HARRIS: They were in the custody of the court before this was made out.

Mr. HENRY: We had those figures.

Mr. HARRIS: You must have the others?

Mr. HENRY: No.

Mr. HARRIS: How is it that you have this and you have not the assets and liabilities?

Mr. HENRY: The assets and liabilities are a different thing, Mr. Harris.

Mr. HARRIS: It is the same set of books?

Mr. HENRY: It is the same set of books, but the inter-relationship which existed between ourselves and the Central Vermont was such that they furnished us with a monthly income account; they did not furnish us with monthly balance sheets.

Mr. HARRIS: This is not a monthly statement, it covers a six months' period.

Mr. HENRY: That is a result of the monthly situation.

Mr. HARRIS: We have no statement of the assets and liabilities of the Central Vermont Railway, except that one for the period ending December 31st, 1926, is that right?

Mr. HENRY: We could produce one by going to the court and getting it, as of the date of the receivership.

Mr. HARRIS: You have none in your possession at the present time?

Mr. HENRY: No.

Mr. McLEAN (Melfort): Was it not due to the change in the assets and liabilities of the road that it was handed to the receiver?

Mr. HENRY: The reason it went into the hands of the receiver was because of the necessity of raising \$3,000,000 to rehabilitate the road.

Mr. McLEAN (Melfort): To repair the damage done to the assets, and provide for an increase in the liabilities?

Mr. HENRY: To repair the damage done to the roadway to permit it to operate at all. There were ninety miles of road which were absolutely washed out.

Mr. McLEAN (Melfort): Would that not affect your assets?

Mr. HENRY: Whenever receivers' certificates are issued, either for this cost of rehabilitation, or for the operating deficits which result during the receivership, they will have to be a prior charge, and will have to be taken care of before the interest of the National Railways. Naturally, when it emerges, it will have some portion of this additional charge on it.

Mr. HARRIS: On what statement was the road put into receivership? There must have been a statement which was the basis of ordering the receivership?

Mr. HENRY: I think it was done by the National Railways applying to the court, it being the largest investor.

Mr. HARRIS: They must have had a statement before them.

Mr. HENRY: Oh, yes, they had a statement of the amount of money required to put it into shape.

Mr. HARRIS: This is not the statement?

Mr. HENRY: No, that is the income account; it represents the results of operation.

Mr. HARRIS: I do not want to embarrass the railway in any way, but is it possible that we could have the benefit of the statement on which you based your judgment that it should go into receivership; you being the largest creditor?

Mr. HENRY: I think we have it, but I do not happen to have it with me to-day. I do not think there would be any objection to presenting that.



Mr. HARRIS: I do not feel that the Committee has any real information. They have this, but it has nothing to do with the receivership, or nothing to do with the standing of the Central Vermont Railway.

The CHAIRMAN: The first day Sir Henry was here he gave us a statement that the reason for asking that it go into receivership was that the Canadian National did not feel disposed to spend all of this money on re-establishment, and let the minority shareholders have the benefit of it.

Mr. HARRIS: I quite appreciate that, but it would be better if the Committee had the statement on which he based his judgment.

Mr. HENRY: That was largely, Mr. Harris, an estimate of the amount of money involved to rehabilitate it, which estimate resulted from an inspection made by our officers following the flood.

Mr. HARRIS: Perhaps the Committee is satisfied to take Sir Henry's judgment, but, at the same time, they would like to see the facts on which it is based.

Hon. Mr. DUNNING: There is one way in which we could possibly arrive at that; we could take the 1926 balance sheet, and we know that there requires to be added, in the form of expenditures, \$3,500,000.

Mr. HARRIS: We do not seem to be able to get information on the gap in there, between 1926 and the time the C.N.R. made up their mind it was good business for this road to go into the hands of a receiver. If it is not in the interest of the railway to give that information, as to the statement of assets and liabilities, and they object to it being given, I do not want it. If there is no reason why it could not be given, I do not see why the Committee should not have it.

Hon. Mr. DUNNING: There is a way in which we can arrive at an approximation, at any rate, of the assets and liabilities. We have before us the 1926 statement of the assets and liabilities; we know that the receiver is now expending money, and we know, because of our interest in the property, the approximate total of the money which is being invested in the property to replace what was destroyed by the flood. There is unquestionably an addition to the liabilities, as it now stands in receivership, of \$3,500,000, over the liabilities at the end of 1926.

Mr. HENRY: Plus the operating deficits.

Hon. Mr. DUNNING: If the Committee could do anything about that, I do not know of any reason why any information should not be given to the Committee. If there is such a thing as a balance sheet up to the time it went into receivership, I know of no reason why it should not be produced.

Mr. HENRY: We can produce one, Mr. Dunning.

Hon. Mr. STEVENS: I do not see any objection to it. I think you are a little unkind to the Central Vermont, in your summary, because out of this three or four million dollars to repair the damage of the flood, a certain portion of it would undoubtedly have an added benefit to the road, which would mean a partial increase in the assets, as well as a total increase in the liabilities.

Hon. Mr. DUNNING: Sir Henry admitted that in his first statement with regard to this matter.

Hon. Mr. STEVENS: It cannot be ascertained until the improvements are completed, and the expenditures made, just what the effect will be?

Mr. HENRY: That will not be known until the receivership is discharged.

Hon. Mr. STEVENS: In the meantime, it does seem to me that Mr. Harris' request is not unreasonable. That is, a statement of the assets and liabilities, at the time of the receivership, should be given. May I say this, Mr. Chairman,

and I have been hesitating very much to ask the question, that I think your own statement bears out the fact that there is nothing to be gained by any secrecy here.

Hon. Mr. DUNNING: Not at all, especially with respect to the accounts.

Hon. Mr. STEVENS: You have published this, and the whole world has it, and you may rest assured that it is carefully analyzed by anyone interested. The upshot of it is that the Canadian National Railways is, by long odds, the main creditor of this road, and the equity of the minority shareholders only amounts to nothing minus something.

Hon. Mr. DUNNING: There are the bondholders as well.

Hon. Mr. STEVENS: Of course, that is a different thing. You are responsible for the bonds?

Hon. Mr. DUNNING: There is no possibility of embarrassment to the receivership, as I see it, in discussing anything which is in these accounts. There is only one thing to bear in mind, and that is that the minority stockholders are all citizens of the United States, and citizens of the State of Vermont.

Sir EUGENE Fiset: How would you propose to raise the money to pay for whatever deficit may exist, that \$3,000,000 that you mentioned? Do you propose to issue new bonds, and guarantee the bonds, or do you propose that the Government should vote it yearly, and treat the Central Vermont in the same manner as you are treating the Eastern section of the National?

Hon. Mr. DUNNING: They are not going to do that; whatever happens that will not be done. Any reorganization will have to wait on the outcome of the receivership, there is no question about that. Until the court determines just who is who, and what is what in the matter of claims of creditors, there cannot be any definite statement made as to where we might go from there. We have every assurance, from the manner in which the court proceedings have gone so far, that there is a disposition on the part of the American courts to treat the Canadian National's interests in the property very fairly. That is not saying too much, is it, Mr. Hungerford?

Mr. HUNGERFORD: That is the situation.

The CHAIRMAN: Have you any further questions on the Central Vermont? If not, we will go on with the rest of the accounts. We will take up Expenditures, less Retirements, during the year 1927, applicable to investment in road and equipment. This appears on page No. 21. You will notice that we have both the Eastern lines and the Canadian National; they are tabulated together, although they are separated.

Mr. HENRY: The first item is "Engineering"—

Mr. HARRIS: Mr. Chairman, before we go into that, is it possible for us to get a little more definite statement with regard to the authority upon which certain items go into investment in road and equipment, and how that authority is reviewed afterwards? I understand the authority comes from the management of the C.N.R., but is there any review of that authority by anybody in Canada who has the authority to act?

Mr. HENRY: I do not think so.

Mr. COOPER: The auditors of the Department of Railways and Canals examine our charges to Capital accounts.

Mr. HARRIS: Have you found in your experience, say, in the last year that they recommended that some of these items you have charged here to road and equipment should perhaps be charged to expenditures or retirements?

Mr. COOPER: No, I do not think they would have any grounds for suggesting that. I think our accounts are correct.



Mr. HARRIS: I quite appreciate that you are 100 per cent efficient, but we are not all infallible. Have you had any instance where the auditors have found it necessary to question your charges to road and equipment?

Mr. COOPER: No, I would say not. I would say, though, that they from time to time ask us as to the basis for the division between operating and capital.

Mr. HARRIS: And the answer you give them is final, as far as they are concerned? In other words, you become almost a law unto yourselves?

Mr. COOPER: I would say this: if they go over our work in that way they would need a staff almost as big as we have.

Mr. HARRIS: Perhaps you could tell us how the Inter-State Commerce Commission does it?

Mr. COOPER: The Inter-State Commerce Commission does not—

Mr. HARRIS: We had the statement a while ago that their inspectors did.

Mr. COOPER: I was going to make an exception to that. Except for special investigations it is not the practice of the Inter-State Commerce Commission to police the charges to capital account. They hold the railways severely accountable for carrying out their instruction and provide severe penalties for failures.

Mr. HARRIS: But not in this country?

Mr. COOPER: I do not know of any penalties in this country.

Mr. HARRIS: The matter is entirely within the hands of the management of the C.N.R., within reason, as to where you will place these costs, whether they go into road and equipment, or into capital charges.

Mr. COOPER: Yes. We have independent auditors, who are also responsible for the checking of our distribution—

Mr. HARRIS: I quite appreciate that they do not go beyond that.

Mr. COOPER: Yes, they do.

Mr. HARRIS: How far?

Mr. COOPER: I would say, to a very great extent. They check us up and take exception to some of our distributions, and we have to agree between us as to what is the correct distribution.

Mr. HARRIS: Would you enlarge on that a little farther, and enlarge the point you raised some time ago about the Railway Commission having some say in the matter?

Mr. COOPER: I do not just gather that question.

Mr. HARRIS: I raised the same question earlier to-day. Somebody said that the Railway Commission had some review in this matter.

Mr. COOPER: No. The accounting regulations governing the charges to investment account were issued by the Board of Railway Commissioners of Canada.

Mr. HARRIS: And your auditors work under those regulations?

Mr. COOPER: Yes, absolutely.

Hon. Mr. DUNNING: Are those regulations placed in the hands of the outside independent auditors?

Mr. COOPER: Yes, they are just as cognizant of them as we are.

Hon. Mr. DUNNING: It is part of their duties to audit your compliance with these regulations?

Mr. COOPER: Yes sir, and they certify here that those accounts are correct.

Mr. BELL (Deputy Minister): Mr. Cooper, if you would explain the relationship between the American Railway Accounting Officers Association and the Commission in classifying these accounts, and working out these disputes, it might clear up something which Mr. Harris wants to know.

Mr. COOPER: The classification of investment accounts as prescribed by the Commission was drawn up after consultation with a committee of the Railway Accounting Officers Association. All of the Classified roads in the United States are members of the Railway Accounting Officers Association. The classification, before adoption by the Inter-State Commerce Commission, was discussed with the Railway Accounting Officers, and it is the consensus of their opinion that this classification is the proper classification to adopt. From time to time the Railway people do suggest revisions of that classification, and they are discussed by the Association and recommended to the Commission, and if agreed to by the Commission are made parts of the classification.

Mr. BELL (Deputy Minister): As a matter of fact, no change is made without referring it to the Accounting Association to get their opinion and the opinion of the leading accounting officers from one end of the country to the other.

Mr. COOPER: They always get the opinions, but they do not always follow them.

Hon. Mr. DUNNING: When you say "accounting officers" you mean the accounting officers in Canada or in Canada and the United States?

Mr. COOPER: Both.

Mr. BELL (Deputy Minister): All the leading railways are members of that. I might say, Mr. Harris—I do not know what it will be worth—that our classification of accounts as between operating and investment is as correct as it is possible for railway accounts to be made. You understand, that is only my personal opinion.

Mr. HARRIS: Over what period of years?

Mr. COOPER: We are talking about the present year, 1927, but my experience goes back to the commencement of the Canadian National Railway system.

Mr. HARRIS: I do not want to divert from this argument, Mr. Chairman, but I want to make this one observation, that the increase in the capital assets as shown by this statement is certainly rather out of proportion to the real value of the railway as it stands to-day.

Hon. Mr. DUNNING: Mr. Chairman, that is rather important. If that is so, I think we should have it demonstrated and have the officers examined on that point. If there is an inflation of the capital account, I think it is the most important thing that could come before this Committee. (To Mr. Harris.) I think you had better proceed on that. I, for one, want to know if that is the case.

Mr. HARRIS: I would ask if Mr. Cooper, along the same accounting system, could not enlarge on that and give us some idea of what sort of sinking fund or reserve is built up in this regard, to take care of the depreciation of rolling stock which is in the capital asset account.

Mr. COOPER: That has nothing to do with the public charges to the investment charges themselves. That is another part of the balance sheet altogether.

Mr. HARRIS: I appreciate that, but the Minister seems to be anxious to review that part of it. It has nothing to do with page 21.

Mr. HENRY: Mr. Harris, this general statement may be taken as representing the point you raised last. The Canadian National Railways, except on



those lines operated in the United States, do not set up any depreciation or retirement reserve either with respect to roadway or equipment. What it does do is to charge to the current year's operations the cost of retiring those units which go out of service during that year, and in cases where there is a part retirement and a part betterment, the rules which the accounting classification provides as to that distribution are used to determine the amount to be charged to capital and maintenance, as the case may be. With respect to the United States lines the I.C.C. classification makes it compulsory for the railways to charge to their accounts each year an amount representing depreciation on equipment. It does not make it mandatory, but allows them to do that if they want to—to charge to their account depreciation upon their road items.

Mr. HARRIS: Under our system here, we do not do that?

Mr. HENRY: We do not do it, no.

Mr. HARRIS: Would it be safe to say that the original cost of that particular asset would be found in the total assets of the railways?

Mr. COOPER: No, it is written off. As a unit of equipment is retired it is written off.

Mr. HARRIS: The unit of equipment purchased and put into operation is included in the assets?

Mr. HENRY: Yes.

Mr. HARRIS: But, we will say, it is operated for a year and its depreciation is thus and so: there is no fund on the other side of the books to take care of the depreciation for the year gone by.

Mr. HENRY: It is a question whether in a large institution such as a railway, covering thousands of miles and thousands of items—

Mr. HARRIS: I appreciate that. I do not say for a moment that we should do thus and so. I want to bring out this particular point as it strikes me. You put this piece of rolling stock, which is really an asset, on the road, and then you retire it and put in some new elements on the road, and you operate them for a year. They stand on the books at 100 per cent of what they cost. Now, you start in and operate them for a second year, but you have no sinking fund to take care of the depreciation for the first year, and so at the end of the second year they stand on the books at their original cost.

Mr. HENRY: It is just a question whether in the operation of a large company such as a railway company extending over thousands of miles, it really makes very much difference over a period. The reason for that is this: that whilst it is true that proportion of the life of the various elements used is exhausted each year, it is equally true that there is charged to the expenses of that year, in respect to this item which was retired, the entire life, so that even if you had a sinking fund reserve over a long period, it is questionable whether it would make very much difference. In a specific year it probably would.

Mr. HARRIS: I would like to follow this a little further. During the last, we will say, five years the Canadian National railway has found it necessary to rehabilitate to a very large extent the different parts of the system. That is correct?

Mr. HENRY: That is correct.

Mr. HARRIS: In the rehabilitation it has been found necessary to retire some units which were not of very much value and buy quite a number of other elements which were quite costly?

Mr. HENRY: That is correct.

Mr. HARRIS: Those units to-day are in operation and stand on the books of the railway at 100 per cent of their cost?

Mr. HENRY: At their cost. That is, provided they were new units and did not involve a retirement at that time. If they did, they stand in the books at the difference.

Mr. HARRIS: The system of keeping the records is such that no depreciation or sinking fund is available when you find it necessary to retire this particular element?

Mr. HENRY: Except with respect to the U.S. lines, that is correct.

Mr. HARRIS: Then, if we found it necessary to-day to liquidate these assets, we would at the same time find it necessary to take a considerable loss in depreciation and sinking fund, even if we got 100 per cent of their to-day's value.

Mr. HENRY: That is a question. It depends on how you were going to liquidate them.

Mr. HARRIS: I can quite appreciate that over a period of fifty years, probably your theory would be quite sound, but inasmuch as this road is newly rehabilitated and very large expenditures have been made to put it on a proper basis, the position during the early years is such that the capital assets of the company are away in excess of the real value of those assets.

Mr. HENRY: The capital assets are away in excess of the real assets? There is one thing which has to be taken into consideration, of course, in making that statement and that is that quite apart from any depreciation which may exist, it is a fact that the cost of some of the elements which went into the property, say, between the period from 1920 to 1923, is a great deal higher than at that time—

Mr. HARRIS: I quite appreciate there is an appreciation.

Mr. HENRY: That in itself might be a rather serious matter.

Mr. HARRIS: That is getting away from the main point.

Mr. HENRY: But I think it is probably a reasonable statement to make, and one which is based upon the experience of the railroads in the United States and Canada over a period of years, that is impossible to keep a railway in a condition in excess of, say, 85 per cent of what it would cost to replace it now. There is probably that amount of accrued depreciation you would never be called upon to make good.

Mr. HARRIS: My idea is that we are in this position to-day; we find ourselves spending a lot of money on different elements necessary to rehabilitate all these lines. That money—up to 100 per cent—is still listed in our assets with no depreciation or sinking fund. Take a hypothetical case: if the life of this element was 10 years, we would find ourselves at the end of 10 years with this large investment of new elements to-day on our hands and find it necessary to retire them and replace them, so we would be in a position at that time where we would again have to make very large capital commitments to replace the elements we have retired.

Mr. HENRY: Of course, what would happen there, Mr. Harris, would be this: that the operating expenses under those conditions, provided we intended to keep the railway operating, would be heavier; that is, the amount you would charge to current operation to make good the life at the high prices—which I presume is what you are speaking of—when exhausted would have to be charged to operating expenses, and, therefore, we would have a larger credit in the operating results of that year to apply to the purchase of the equipment we intended to replace the retired material with. As an illustration of that, I might say that in 1927 the retirement feature amounted to approximately \$14,000,000.

Mr. HARRIS: And the betterments were how much?

Mr. HENRY: The betterments were \$45,000,000.



Mr. HARRIS: As one year succeeded the other, you would find that your retirements features would be more and more.

Mr. HENRY: If the situation to which you refer exists to a large degree, it means that at some time in the future our operating expenses would be relatively higher than they are now. That is true.

Mr. HARRIS: As one year succeeds the other the retirements, after we get the first use of all these new elements we have during the last five years, will be more and more.

Mr. HENRY: For instance, if you put in ties for 100 miles this year, it is improbable you would have to renew those ties in that 100 miles inside of six or seven years, and naturally at that time your retiring feature on that particular section would be much higher, but at that time the charge would be an operating charge.

Mr. HARRIS: Mr. Henry, I imagine the railway has a fairly good idea of the life of the different elements which go to make up the whole railway system. If a sinking fund were arranged of sufficient magnitude to reasonably take care of those elements when they were to be retired, and the difference in their value at retirement and the cost of replacement, would it not be a fact that we would find it necessary to vote more money than we are voting now to take care of that depreciation.

Mr. HENRY: If you proceed upon the assumption that it was proper practice in any one year to charge to the operations of that year the amount of exhaustive life due to these operations, it is probable your statement would be correct.

Mr. HARRIS: Then taking it just at that point, it is probable your statement is correct—

Mr. HENRY: Wait a minute—

Hon. Mr. DUNNING: Only in so far as this amount would exceed the retirements.

Mr. COOPER: In any case the bookkeeping charge for depreciation would not be voted. The government would not give us that in cash unless we were to invest it. It would not be necessary to vote any more money.

Mr. HENRY: It is just a question of opinion, Mr. Harris, as to whether or not it is good practice to assume a theoretical life—

Mr. HARRIS: I am not urging a practice at all. I just wanted to go into that a bit. Assuming that is reasonably correct then that particular amount of money which to-day we find in this in the assets—

Mr. HENRY: Of course, in setting up that depreciation, you would have to bear in mind that, due to the retirement which did take place in the year 1927, that amount would have to be deducted from whatever was set up.

Mr. HARRIS: Oh, yes, I quite appreciate that.

Hon. Mr. DUNNING: What is the C.P.R.'s practice in this connection?

Mr. HENRY: They do not set up a depreciation reserve. I believe that their practice is not to increase the capital account unless the units of equipment are increased.

Mr. HARRIS: I just want to make one observation on the statement of the Minister. I think he realizes that the C.P.R. have not found it necessary to rehabilitate to the same degree as the C.N.R. with the result that the increase in their capital cost would not be so much during the last five years, as has been the case with the Canadian National Railways. Their affairs are running along a little more uniformly than ours.

Mr. HENRY: The Canadian Pacific Railway were a few years in advance of the Canadian National Railways in establishing the permanency of a great

many of their structures. This was done at a lower basis of price than ours, and, consequently, our capital expenditures during the past few years have been relatively higher, of necessity.

Mr. HARRIS: The difference between these two positions is reflected in the increased statement of assets that we have in this statement?

Mr. HENRY: I did not catch that question?

Mr. HARRIS: The situation is reflected in the statement of assets and liabilities? These betterments which we have found necessary to put in in the last five years are one hundred per cent in the statement of assets, whereas the actual value of them to-day is the difference between what they cost and how much of their value has been exhausted through use? That particular exhaustion is not represented in the balance sheet for the years to come, and we will find it necessary to take care of that?

Mr. HENRY: The capital expenditures which have been made in the last five years, and the retirement of which has not taken place during that time, have naturally exhausted a certain proportion of their life. To that extent, of course, the balance sheet does not reflect that loss of life, or loss of value.

Mr. HARRIS: Inasmuch as it does not reflect that loss in life, and loss in value, and inasmuch as these expenditures have been exceptionally heavy during the last five years, then the statement of assets—I would not say it was inflated, but I think the Minister used that word—shows that much more money. If the Minister wants to call it an inflation, he may do so.

Hon. Mr. DUNNING: Do not put the word "inflation" in my mouth.

Mr. HARRIS: You put it in mine.

Hon. Mr. DUNNING: That is what I thought you were attempting to show.

Mr. HARRIS: I quite appreciate that my vocabulary is not quite as large as the Minister's.

Hon. Mr. DUNNING: I thought that your point was to demonstrate that the assets were inflated; that is, that the statement showed the value of assets which were non-existent.

Mr. HARRIS: I did demonstrate it to the satisfaction of myself, if not to the other members of the Committee.

Mr. HENRY: If you did set up a reserve the assets would not be depreciated.

Mr. HARRIS: I am not suggesting that it should be done, but, at the same time, I just want that point brought out. In the years to come we will have to take care of the exhaustion which has gone on in the last five years, due to the very heavy rehabilitation costs?

Mr. HENRY: A large part of that rehabilitation has been in fairly permanent work.

Mr. HARRIS: It will exhaust itself.

Mr. HENRY: The Expenditure, Less Retirement, During the Year 1927, Applicable to Investment in Road and Equipment are divided, as shown on page 21, and show the eastern lines and the remainder of the system in separate columns. Engineering, on the eastern lines, is \$3,639.34; for the balance of the system, \$736,573.20; Land for Transportation Purposes, for the eastern lines, \$7,228.26; and the balance of the system, \$2,673,627.79.

Mr. JELLIFF: Where was that land acquired?

Mr. HENRY: That is land acquired for all purposes throughout the system, branch lines, sidings, and so on.

Mr. HARRIS: Could you give us an idea of just what territory that covers? I was thinking more particularly of the change that has taken place in the waterfront of the city of Toronto.



Hon. Mr. DUNNING: The Toronto terminals would be separate.

Mr. HENRY: I do not know that we can give you that at the moment.

Hon. Mr. DUNNING: This acquisition of land within the Toronto Terminals Company is not included?

Mr. HENRY: No.

Hon. Mr. DUNNING: But any Canadian National land in Toronto, outside of that area, would be there?

Mr. HENRY: That is correct.

Mr. HARRIS: It is really that last point that I wanted to get, outside of the Toronto Terminals Company?

Mr. HENRY: In Toronto?

Mr. HARRIS: And the Township of Scarboro?

Mr. HENRY: I cannot give you that offhand.

Hon. Mr. DUNNING: Could you get it for the next sitting of the Committee?

Mr. HENRY: Oh, yes.

Mr. HARRIS: For Toronto and the Township of Scarboro. If I could have that information at the next sitting, it would be satisfactory.

Mr. CANTLEY: Would the accountant be good enough to tell us what percentage of the whole system is included in the eastern division?

Hon. Mr. DUNNING: In mileage?

Mr. HENRY: It is 2,880 miles for the eastern division, but that only includes the six months' period.

Hon. Mr. DUNNING: It is 19,090.99 for the system, less the Eastern Lines. That appears on page 38 of the Red Book. Then, on page 13 of the Eastern Lines' report you will find the Eastern Lines mileage.

Mr. HENRY: No. 3, Grading, for the Eastern Lines, \$61,677.60; for the rest of the system, \$5,215,023.57.

Mr. HARRIS: Could I have the same information there, if it is not too much to ask for?

Mr. COOPER: We can divide that.

Hon. Mr. DUNNING: Mr. Harris wants it for Toronto and Scarboro Township, exclusive of the Toronto terminals.

Mr. COOPER: I would not engage to get it by to-morrow morning.

Mr. HARRIS: There is no particular hurry.

Hon. Mr. DUNNING: That includes your grading for branch lines?

Mr. HENRY: Oh, yes. Under the branch lines we spent \$8,000,000.

Hon. Mr. DUNNING: How could that include the \$8,000,000?

Mr. HENRY: That is only grading. Tunnels and Subways, for the Eastern Lines, \$4,242.74; for the rest of the system, \$33,246.94. Bridges, Trestles and Culverts, for the Eastern Lines, \$52,175.39; for the balance of the system, \$3,017,208.38. Ties, for the Eastern Lines, \$17,446.38; for the balance of the system, \$755,073.32.

Sir EUGENE Fiset: That covers the ties put down?

Mr. HENRY: The ties used for addition.

Hon. Mr. DUNNING: For new work?

Mr. HENRY: New work.

Mr. JELLIFF: Is the Hudson Bay Railway included in that?

Mr. HENRY: No. Rails, for the Eastern Lines, \$133,439.46; for the rest of the system, \$1,416,662.65.

Hon. Mr. DUNNING: There would be some retirement deduction in that case?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: That is, when the rail is laid you credit that part of the system with the value of the old rail?

Mr. HENRY: We only charge the difference in weight.

Hon. Mr. DUNNING: This is the difference, then, between the cost of the new and the value of the old?

Mr. HENRY: Plus the new rails for branch lines.

Mr. COOPER: The difference in weight only; the additional weight at the current price. We do not retire at the original cost, we retire at the present day price.

Mr. HENRY: Other Track Materials, for the Eastern Lines, \$158,941.06; for the rest of the system, \$2,433,027.83.

Mr. HARRIS: How do you figure the retirement there?

Mr. HENRY: They follow the same rule, as applied to the rails.

Mr. HARRIS: It would be by weight?

Mr. COOPER: We would charge the additional weight, so far as angle bars are concerned, for instance.

Hon. Mr. DUNNING: What does Other Track Material include?

Mr. COOPER: Switches, angle bars, crossings, and so on.

Mr. HENRY: Connecting rods, derails, frogs, grade rail blocking, grade rail clamps, grade rail fasteners, nut locks, rail clips, rail joints, rail splices, switch chairs, switch crossings, tie plates, tie blocks, track spikes, and track insulators.

Mr. CANTLEY: There are only three or four of those items that could be used over again, the rails, fish plates, and crossings?

Mr. HENRY: With relay rails, all the material is taken out and used over again.

Mr. CANTLEY: But when you come to tie plates, and nut locks and bolts, they go into the scrap heap?

Mr. BELL (Deputy Minister): That is charged to operating.

Mr. CANTLEY: I was just pointing out that there were only three or four of the items that were really replacement items.

Mr. HENRY: That is correct. Ballast, for the Eastern Lines, \$43,682.25; for the balance of the system, \$1,583,619.63.

Mr. HARRIS: Any retirement there?

Mr. HENRY: Yes, the retirement there amounted to \$43,000.

Mr. HARRIS: That is to say, \$43,000 was charged to the operating account?

Mr. HENRY: That is not the total charge. In addition to that, the operating accounts were charged with \$844,387, for the remainder of the system, exclusive of the Eastern Lines.

Hon. Mr. DUNNING: The amount in this item No. 11, is, practically speaking, ballast on new work?

Mr. HENRY: No, it means the regular ballast on old work, and increased lift. Ordinarily, the amount of ballast used on a track varies, to a certain extent, with the traffic. You may start out with a six inch lift, and, as the traffic increases, you would bring it up to a foot. The difference between the six inches originally put there, and the twelve inches, would be a capital charge. The branch lines, of course, are there as well. On the Eastern Lines, the ballast for the six months ending December 31, 1927, was \$43,958.

Hon. Mr. DUNNING: Charged to Operating?—



Mr. HENRY: Charged to Operating Expenses. Tracklaying and Surfacing, for the Eastern Lines, \$70,080.55; for the balance of the system, \$1,146,243.38. Right-of-Way Fences, for the Eastern Lines, \$17,214.13; for the balance of the system, \$101,739.41. Sand and Snow Fences and Snow Sheds, for the Eastern Lines, \$2,353.52; for the balance of the system, \$25,950.31. Crossings and Signs, for the Eastern Lines, \$5,152.37; for the balance of the system, \$205,860.20.

Mr. HARRIS: Are the Railway Board ordering any more crossings?

Mr. HENRY: They are.

Mr. HARRIS: What is the policy of the road with regard to that?

Mr. HENRY: That includes overhead bridges, you know, and things of that kind.

Mr. HARRIS: Have you any fund from which to draw your requirements for the demands made by the Railway Commission for railway crossings?

Mr. HENRY: There is a Grade Crossing Fund, which was inaugurated in 1909, and against which the Board is authorized to contribute a certain proportion.

Mr. HARRIS: What proportion?

Mr. HENRY: I have forgotten just what it is.

Mr. BELL (Deputy Minister): It is 40 per cent, but not to exceed \$25,000.

Mr. HARRIS: And is the municipality affected?

Mr. BELL: The Board may assess, as they see fit, but they cannot charge the Grade Crossing Fund more than 40 per cent of any one crossing and not over \$25,000.

Hon. Mr. DUNNING: I am thinking of introducing an amendment to that which will broaden its scope a little. I have a notice on the Order Paper now.

Mr. CANTLEY: I suppose this is an indication that they apparently regard life in the Maritime Provinces as being of very little value, because there is only about one-fortieth spent there, as compared with what is spent on the balance of the road.

Hon. Mr. DUNNING: You make it up in the next item.

Sir EUGENE Fiset: The next item is the only item where the Eastern Division gets its fair proportion, as compared with the rest of the road.

Mr. HENRY: That is not quite correct, generally, for the reason that the balance of the six months of the expenditure on the Eastern Lines appears in the statement. That is only the capital expenditure for six months.

Sir EUGENE Fiset: Even when it is doubled it is not fair.

Hon. Mr. DUNNING: The explanation of that is that extensions to the system, involving a capital expenditure, are not being carried out on the Eastern Lines.

Mr. HENRY: Station and Office Buildings, for the Eastern Lines, \$471,429.75; for the balance of the system, \$1,626,335.92. Roadway Buildings, for the Eastern Lines, \$1,160.95; for the balance of the system, \$298,297.43.

Mr. JELLIFF: Going back to that previous item, where were the new stations built?

Mr. BROWN: On the Eastern Lines?

Mr. JELLIFF: Both Eastern and Western.

Mr. BROWN: There was a new station at Edmonton, in the west; a new train shed at St. John; a new station at Summerside; a new station at Flint, Michigan; and stations at 117 points.

Mr. CANTLEY: What is meant by Roadway Buildings?

Mr. HENRY: They are tool houses, and things of that kind. Water Stations, for the Eastern Lines, \$26,573.45; for the balance of the system, \$420,125.23. Fuel Stations, for the Eastern Lines, \$435.08; for the rest of the system, \$122,583.93. Shops and Enginehouses, for the Eastern Lines, \$123,834.83; for the balance of the system, \$843,084.84. Grain Elevators, for the balance of the system, \$66,547.97. Wharves and Docks, for the Eastern Lines, \$5,890.58; for the balance of the system, \$208,788.95.

Mr. CANTLEY: Before you pass from that item, and I have referred to this matter before; the papers generally report that the Canadian National Railways had turned over all of their terminal docks in the Maritime Provinces to the Public Works Department; is that correct?

Hon. Mr. DUNNING: To the best of my belief, we have turned them all over.

Mr. BELL (Deputy Minister): Where they are not closely identified with the railway we have been turning them over gradually to the Public Works Department. There are a great many cases where they were built in the old days of the Intercolonial, and charged to the Intercolonial, and as fast as we can turn them back to the Public Works Department we are doing so.

Mr. CANTLEY: The statement was made that all the docks of the Canadian National Railways, in the province of Nova Scotia, had been turned over; is that correct? For instance, what about the docks at Pictou?

Mr. BELL (Deputy Minister): The Pictou docks are in the process of being turned over.

Mr. CANTLEY: What about Halifax?

Mr. BELL (Deputy Minister): The Halifax docks have been turned over to the Harbour Commission, which was formed under the Act of last session.

Mr. CANTLEY: Does that apply to all the docks in Halifax, No. 24, No. 22, and No. 28?

Mr. BELL (Deputy Minister): I think they are practically all turned over.

Mr. CANTLEY: And the new immigration shed?

Mr. BELL (Deputy Minister): Yes.

Mr. CANTLEY: And the same is true down on the South Shore?

Mr. BELL (Deputy Minister): I understand so.

Mr. CANTLEY: That would cover all the wharves in the province of Nova Scotia?

Mr. BELL (Deputy Minister): I do not think they have been turned over at Pictou, nor Sydney.

Mr. CANTLEY: I understood you to say that the docks at Pictou were being turned over.

Mr. BELL (Deputy Minister): There was a little mixup on that.

Hon. Mr. DUNNING: The intention is to turn them over to the Public Works Department immediately.

Mr. CANTLEY: Why is that being done; why the change in policy?

Mr. BELL (Deputy Minister): Because that is the proper place for them; they are not part of the railway.

Mr. CANTLEY: That is a matter of opinion. Take the docks at Pictou, they are not public docks in any sense of the word at all; they are simply terminal docks of the railway.

Mr. BELL (Deputy Minister): The general policy throughout the rest of the Dominion, is for the Public Works Department to build the docks, and they are just adjusting the Maritime Provinces to that.



Mr. CANTLEY: I am not objecting to it, but I am objecting to the explanation. That statement, pardon me, is not correct. The cars come in to the dock, and the freight is discharged in a shed, and it is used exclusively for the railway, and for no other purpose.

Mr. BELL (Deputy Minister): You are speaking of Pictou?

Mr. CANTLEY: I am speaking of Pictou. Then, take the dock farther down in the harbour; that is used for the handling of lumber, and for no other purpose. Public teams cannot get on it at all, as it is covered with railway tracks, and rightly so. Both of those docks are purely and simply railway docks, and are not public docks in any sense of the word. They are not used by the public, apart from getting freight to and from the railroad.

Witnesses retired.

The Committee adjourned until Thursday, April 19, at 11 a.m.











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Canada - Railways and Shipping, 1928

SESSION 1928

HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

23 1928

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4—APRIL 19, 1928

WITNESS:

Chief Witness—Mr. R. A. C. Henry, Director, Bureau of Economics, Canadian National Railways.

Assisted by: Mr. T. H. Cooper, General Auditor, Mr. S. J. Hungerford, Vice-President, Mr. W. D. Robb, Vice-President, and Major G. A. Bell, C.M.G., Director, Canadian National Railways.

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1928





## MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

THURSDAY, April 19, 1928.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. this day, Mr. Goodison, the Chairman, presiding.

Members of the Committee present: Messieurs Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne and Stevens (Hon. H. H.)—9.

Mr. R. A. C. Henry was again in attendance as the chief witness for the day; assisted by Mr. W. D. Robb, Vice-President, Mr. S. J. Hungerford, Vice-President, Mr. T. H. Cooper, General Auditor. Numerous other officials of the Canadian National Railways were also in attendance to supply any information required by the Committee.

Resumed consideration of the Annual Report at page 21, where dropped at adjournment of previous meeting. Items 24 to 47 under "Road" were considered in detail.

Under "Equipment" items 71 to 77 were considered and discussed.

Pages 22 to 38 were taken up in successive order and considered in such detail as thought necessary by the Committee.

Considerable discussion with Mr. Stevens with reference to the issue of Equipment Trust Certificates, as mentioned at page 7, and again on pages 26-27 of the Annual Report.

The consideration of the Annual Report being completed, and the hour of one o'clock having arrived, the Chairman announced that it was time to adjourn.

It was decided to meet again on Tuesday, April 24th. The Committee adjourned.





## MINUTES OF EVIDENCE

COMMITTEE ROOM 497,

HOUSE OF COMMONS,

THURSDAY, April 19, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m.; the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: We left off at Item No. 23, yesterday.

Mr. HENRY: Coal and Ore Wharves, for the Eastern Lines there is nothing; for the balance of the system \$47.17. Telegraph and Telephone Lines, for the Eastern Lines, nothing; for the balance of the system, \$61,360.01.

Mr. JELLIFF: Is that due to extensions?

Mr. HENRY: That is extensions and betterments; improvements in existing lines.

Hon. Mr. STEVENS: Is the Telephone and Telegraph revenue kept separate?

Mr. HENRY: It is kept separate, but it all goes into the general fund; the revenue on one side and the expenses on the other.

Hon. Mr. STEVENS: Can you give us a brief idea of the telegraph service now owned by the company? You took over some western lines?

Hon. Mr. DUNNING: It is under negotiation now. You mean the one in the Maritime Provinces?

Hon. Mr. STEVENS: No, the one that was associated with the Western Union?

Mr. HENRY: The Great North Western.

Hon. Mr. STEVENS: Just give us a general outline. I do not want any great details, as far as I am concerned.

Mr. HENRY: Do you have in mind such things as the mileage, and so on?

Hon. Mr. STEVENS: Yes, and the main distribution, and the main system.

Mr. HENRY: Roughly speaking, it is divided into the Canadian National Telegraphs, and the Grand Trunk Pacific. The Canadian National embraces the old Canadian Northern and Grand Trunk, or the Great North Western.

Hon. Mr. DUNNING: The stock is held by the Canadian National?

Mr. HENRY: The stock is held by the Canadian National.

Hon. Mr. DUNNING: The Maritime people would be interested in the maritime situation, with regard to the Western Union. Could you give us any information on that, without embarrassing the negotiations?

Mr. HENRY: We have been in negotiation with the Western Union for the last two or three years, for the purpose of acquiring their lines in the Maritime Provinces. The price which they originally asked was a little bit higher than we thought the property was worth, and negotiations were cut off for a while. They have since been resumed, and a committee has been appointed, consisting of members of the various interests, and a valuation is being made.

Hon. Mr. STEVENS: What connection have you now with any transatlantic cable company?

Mr. HENRY: I am afraid I cannot answer that. I will have to get Mr. Robb to answer that.

Hon. Mr. STEVENS: I do not want to ask anything that is going to be embarrassing, and I do not want you to uncover anything.

Hon. Mr. DUNNING: We must have a connection with some transatlantic cables, but I just cannot recall what it is at the moment.

Sir EUGENE Fiset: You have some connection at the present time with the Marconi people at Father Point?

Hon. Mr. DUNNING: That is a wireless connection.

Mr. McLEAN (Melfort): There is the cable connection at Cable Hill in Nova Scotia.

Hon. Mr. DUNNING: We will have Mr. Robb come up here.

Mr. McLEAN (Melfort): Are all your telegraph lines those that run on the railway right-of-way?

Mr. HENRY: I think, generally speaking, that is true. The telegraph mileage, used for commercial purposes, embraces 68,452 miles; the wire used for railway purposes, 25,834 miles; and jointly, that is, for both commercial and railway purposes, 21,004. The telephone wires used for train dispatching, 23,220 miles; and for other purposes, 1,817. This makes a total wire mileage of 140,000 miles. We have 1,766 offices in Canada, and 31 in the United States. The offices of the management and staff are located in Toronto.

Hon. Mr. STEVENS: I see a paragraph in the President's report that really is interesting. It says, "the net income from telegraph service increased from \$241,249 in 1926 to \$403,967 in 1927."

Mr. HENRY: In 1927 we had completed, between Montreal and Toronto, the carrier current system, which enabled us to increase the capacity of our wires a great deal, and, therefore, permitted an increase in business. The operating revenues of the Canadian National Telegraphs, and the Grand Trunk Pacific, in 1927, were \$4,921,000; in 1926 they were \$4,511,000. The operating expenses in 1927, were \$4,129,000; in 1926, \$3,856,000. The net operating revenue, in 1927, was \$791,000; in 1926, \$655,000. The net income, after paying all charges, was \$368,000 in 1927; and \$218,000 in 1926.

Hon. Mr. STEVENS: You do not show this telegraph revenue separately in your Revenue Account?

Mr. COOPER: It is included in the income statement on page 15, under account 512, Separately Operated Properties.

Hon. Mr. STEVENS: That includes other things?

Mr. COOPER: That includes a number of subsidiary companies, of which the telegraph company is one.

Hon. Mr. STEVENS: I suppose there is no objection to showing it as a separate item?

Mr. COOPER: It is intended with the 1928 account, to include telegraph revenues and expenses with the railway revenues and expenses, but that is a change that is only to take place this year. The full results of the company are included in the final statement.

Hon. Mr. DUNNING: Here is Mr. Robb now. Mr. Robb, there is some question as to the negotiations for the acquisition of the Maritime lines. Will you tell the Committee as much as you can about that, without embarrassing your negotiations?

Mr. ROBB: When the amalgamation took place, with the Canadian National Telegraphs as part of the Canadian National Railways, we did not have the British Columbia line, and only went as far as Moncton. We procured the British Columbia line from the Western Union, but we were not able, at that time, to procure the Maritime Provinces lines of the Western



Union. They were not inclined to let us have the line, and they put a price on them which we thought prohibitive. In addition to that, they just simply said that they were not for sale, and we dropped negotiations. Over a year ago we took them up again. I explained to Mr. Carlton, the President of the Western Union, that they were lines which we felt the Canadian National ought to have, as our system was not complete unless we went from coast to coast. I told him that it would not interfere with his cables in any way. They were afraid that if we took the lines over it would leave the cables isolated, and so on. We finally convinced him that it would not interfere with that whatever, and he said that if we could agree on a price, and the physical conditions, and so on, he would probably be willing to sell. We appointed a committee of our people, and the Western Union people, and they went all over the Maritime Provinces' lines, and they agreed as to the physical condition of the property. After that, of course, we had to price out, and we priced out, from the Canadian National side, what we felt the properties were worth. The Western Union were also pricing out, from their side what they were worth. We placed two million dollars in the budget, as the amount that we would require, if we were going to take the lines over, because we expected them to be ready some time this spring. They are just about ready with all their figures, and are about ready to submit them. We will then get together and see if we can agree as to the price. It comes down to the question of revenue and expenses of the lines, and depreciation, and so on, as to whether it is worth our while to take them over. We cannot say that at the present time.

Hon. Mr. STEVENS: I asked about your connection with the cable to the Old Country?

Mr. ROBB: We have no cables. The cables belong to the Western Union, but we have a working agreement with them, not only on cable messages, but on all messages. They are practically our allies, all through the United States and all through Canada. We give them our business and they give us their business, which is a very important business to the Canadian National Railway. It takes in all the messages coming into Canada from the United States over the Western Union. We take their cable messages and transmit them, and we get a percentage for handling them, both coming and going.

Sir EUGENE Fiset: Does the same agreement exist, as far as wireless is concerned?

Mr. ROBB: No, we are not in the Marconi at all; the Marconi have a connection with the C.P.R. not with the Canadian National.

Mr. JENKINS: This will apply to Prince Edward Island also?

Mr. ROBB: You are talking about the Anglo-American?

Mr. JENKINS: Yes.

Mr. ROBB: They have an arrangement with the Western Union, and it will come under us as well.

Mr. JENKINS: You will be able to take over that system?

Mr. ROBB: Yes, sir.

Mr. JENKINS: I understood that they had a lease?

Mr. ROBB: Yes, they have a lease.

Mr. JENKINS: You will be able to make amicable arrangement?

Mr. ROBB: Yes.

Mr. JENKINS: Will the employees in the service of the Anglo-American, or the Western Union, be put on a par with the other employees of the System?

Mr. ROBB: Yes, sir. That question came up when we took over the British Columbia line. The employees in the Western Union were very much concerned,

because they were on a very much lower rate than we were. They thought that they would lose their seniority, and so on. That has all been provided for. The employees in the Maritime Provinces will at once come under the schedule of the Canadian National Railway, which will give them quite a substantial increase, as was the case in British Columbia. Inasmuch as the subsidiary companies, including the telegraph companies, come under the pension system, they will be provided for the same as the employees on the railway. That means that if an employee in the Maritime Provinces has been forty years in the service, as soon as the Canadian National take over those lines, that employee's service would count, just the same as if he had worked for the Canadian National Railways.

Hon. Mr. DUNNING: That is, when you get your pension scheme?

Mr. ROBB: We have that pension scheme now. I might say that the employees down there were very much concerned about it. Last year, when I went down and looked over all the property, I went to the trouble of meeting all the heads of the employees down there, and I explained the situation thoroughly to them, and they were perfectly satisfied.

Mr. HENRY: Signals and Interlockers, for the Eastern Lines, \$7,742.46; for the balance of the system, \$355,734.61. Power Plant Buildings, for the Eastern Lines, nothing; for the balance of the system, \$86,426.56. Power Transmission Systems, for the Eastern Lines, nothing; for the balance of the system, \$23,847.30. Power Distribution Systems, for the Eastern Lines, \$437.54; for the balance of the system, \$97,459.41. Power Lines, Poles, and Fixtures, for the Eastern Lines, nothing; for the balance of the system, \$86,750.59.

Mr. MILNE: Does that cover electric trains and cars?

Mr. HENRY: That covers anything connected with the transmission of electricity, either for our electric lines, or for any other purpose. It means additions to them, and betterments to them during the year.

Mr. JELLIFF: Just where were those expenditures made?

Mr. HENRY: I think perhaps we can give you that. Montreal, Sarnia, and at the various larger centres throughout the system, and a miscellaneous aggregation of small expenditures.

Hon. Mr. STEVENS: I frankly do not see, from the standpoint of accountancy, why you should set up a special account for that?

Mr. HENRY: That is in accordance with the classification.

Hon. Mr. STEVENS: I suppose that classification assumes that that will be applicable to partially electrified roads, or wholly electrified roads?

Mr. HENRY: Anything that is required for the upkeep of any of the electrical installations, is first charged to ordinary maintenance, but anything that is added to it is charged to capital, under the classification.

Hon. Mr. STEVENS: I am not quarrelling with the Company's officials, but I am just simply criticizing for the moment, this classification. The accounts are supposed to reflect, as intelligently as possible, the general condition of the system, in as concise and clear a form as one could get it. Take these items, Power Transmission Systems, and so on; there are three or four items there, but they reflect nothing.

Mr. HENRY: They reflect the capital expenditure, the betterment expenditure during that year. It may only be one dollar.

Hon. Mr. STEVENS: But some of that may be in Vancouver, and some in Halifax, in little, petty local affairs? It might be a little line that you are running across to connect with the Ottawa Electric, to carry some power to your central station here, or something of that character?

Mr. HENRY: It might be.



Hon. Mr. STEVENS: My point is that it does not reflect anything on the operating part of your system?

Mr. HENRY: It means an addition, that is about all you can say.

Hon. Mr. STEVENS: Here is a great telegraph system that is included in an item with other subsidiary companies, which may not have any relation to telegraphs at all. I am just drawing attention to that rather anomalous method of classification. A department having a net earning of \$700,000 is not reflected here at all, while another petty, little item is shown in a special account on your general statement.

Mr. COOPER: The point there is that some roads in the States have large expenditures under these items, and this classification was designed more for them, but was adopted by the Canadian National. If we have anything that falls into those accounts, it goes there.

Hon. Mr. STEVENS: The Chicago, Milwaukee and St. Paul Railway, for instance?

Mr. COOPER: The New York Central, and the B. & O.

Hon. Mr. DUNNING: I think your criticism is well taken. But, in a certain sense, these accounts are anticipatory of the future; that is, there is a tendency in certain sections, more and more in the direction of the use of electrical power for railroading in various ways.

Hon. Mr. STEVENS: But telegraphs have been used for what, generations?

Hon. Mr. DUNNING: I suppose the reason for that classification is that they were originally subsidiary companies.

Hon. Mr. STEVENS: That cannot be the explanation, because they are not provided for in this classification. My criticism is that they should be provided for in this classification.

Mr. HENRY: There is Item No. 26.

Hon. Mr. STEVENS: That is only \$61,000, and the net earnings are \$700,000.

Mr. COOPER: The capital expenditure for Telegraphs is included in this item down here at the bottom, Investment Expenditures by Separately Operated Properties. That includes betterments to the Canadian National Telegraph System.

Hon. Mr. DUNNING: What is this \$61,000?

Mr. COOPER: That covers certain railway wires under the control of the Canadian National Telegraphs.

Hon. Mr. STEVENS: Track telephones, for instance, like the dispatcher's office, and things of that kind?

Mr. COOPER: For all purposes.

Mr. HENRY: Miscellaneous Structures, for the Eastern Lines, nothing; for the balance of the system, \$15,136.12. Paving, for the Eastern Lines, nothing; for the balance of the system, \$2,561.91. That item is a credit. Roadway Machines, for the Eastern Lines, \$5,835.62; for the balance of the system, \$22,434.05. Roadway Small Tools, for the Eastern Lines, \$227.55; for the balance of the system, \$15,225.37. Assessments for Public Improvements, for the Eastern Lines, nothing; for the balance of the system, \$190,737.04.

Hon. Mr. DUNNING: How is that properly an investment in road and equipment?

Mr. COOPER: This was by order of the Commission. If a municipality engages in some public improvement, the theory is that there is an added value to our property.

Hon. Mr. STEVENS: Like an overhead passage, or subway?

Mr. COOPER: Paving is the principal item.

Mr. HENRY: Revenues and Operating Expenses during Construction—

Hon. Mr. STEVENS: A subway would be an improvement, as it does away with a level crossing.

Hon. Mr. DUNNING: This does not include subway expenditures. There would be no public improvement assessment against the railway on a subway, but if they built a road in front of our freight sheds, for instance.

Hon. Mr. STEVENS: It might be a half and half proposition?

Hon. Mr. DUNNING: But it would not be charged against us as public improvement taxes.

Mr. COOPER: If they pave a street crossing we are responsible for a portion of that. Where we build a railway across the highway, we have to put in plank-ing, and all that surfacing is our obligation. If they replace that with permanent paving, we have to pay for a portion.

Hon. Mr. DUNNING: What are those italicized items?

Mr. COOPER: They are credits. The first item there, Revenues and Operating Expenses during Construction, \$212,920.60. The principal item in that is earnings during the construction period of the National Transcontinental Railway branch lines. The next item, \$1,278,201 is the cost of the Montreal Terminal Railway. When that property was purchased it was charged to this account No. 41. When we were unable to separate the elements in it, the amount of ties, rails, and so on, we credited account No. 41, and charged it to the appropriate primary account.

Hon. Mr. DUNNING: When was this road purchased?

Mr. COOPER: The money was paid over in 1927.

Hon. Mr. DUNNING: It was authorized a long time ago?

Mr. COOPER: Yes.

Mr. HENRY: Other expenses—Roads, for the Eastern Lines, \$285,210; for the balance of the system, \$150,057.93. Shop Machinery, for the Eastern Lines, \$60,059.36; for the balance of the system, \$238,238.85.

Mr. HARRIS: I understand that all these accounts find their way into item No. 701?

Mr. HENRY: Yes.

Mr. HARRIS: What is this shop machinery, is it all new equipment?

Mr. HENRY: That is lathes, and anything in the form of shop machinery that is installed in the various shops throughout the system, and additional equipment.

Mr. HARRIS: And the average life would be about what?

Mr. HENRY: That would be very difficult to say, as each machine has a different life.

Hon. Mr. DUNNING: What retirement did you have in that account; that will give us an idea?

Mr. HENRY: \$287,000.

Hon. Mr. DUNNING: You had more retirements than you had new?

Mr. COOPER: We had additions of \$565,000, retirements of \$287,000, making a net addition of \$277,000.

Hon. Mr. DUNNING: This is net?

Mr. HARRIS: How do you arrive at the amount of retirements; is that the original cost?

Mr. COOPER: Yes.

Hon. Mr. DUNNING: The original cost of the items retired?

Mr. COOPER: The original cost of the property retired.



Hon. Mr. DUNNING: I thought you said that you retired at current prices?

Mr. COOPER: In the case of rails and ties we do.

Hon. Mr. DUNNING: Why the difference?

Mr. COOPER: There is a conflict in accounting theories there. When you take a tie out it is difficult to identify it with the original cost, and the same with a piece of rail. It would be very difficult to trace the original cost of that rail, and retire it from the Property Account. In theory, it should be the original cost, but for practical purposes it is taken at the present day value.

Hon. Mr. DUNNING: One piece of rail of 1913, might be taken out, and 99 pieces left in; that is what you mean?

Mr. HARRIS: I see the accounts number from one to seventy-seven; how many more are there that go to make up account No. 701?

Mr. COOPER: Those are all the accounts. We have a few here which are grouped as Separately Operated Properties, but the accounts numbers 1 to 77 are still included in account No. 701.

Mr. HARRIS: When did this particular book-keeping system come into vogue with the Canadian National Railway?

Mr. COOPER: Since the Canadian National Railway system was consolidated in 1923, this present classification has been in effect, but it was in effect with the predecessor companies.

Mr. HARRIS: Since 1923?

Mr. COOPER: It has been in force for the full period, 1923-27.

Mr. HARRIS: That is to say, this list of accounts has been uniform from 1923.

Mr. COOPER: That is it.

Mr. HENRY: Power Plant Machinery, for the Eastern Lines, \$650.38; for the balance of the system, \$16,569.69. Power Substations Apparatus, for the Eastern Lines, nothing; for the balance of the system, \$3,678.79. Unapplied Construction Material and Supplies, for the Eastern Lines, nothing; for the balance of the system, \$82,350.61. The total for the road items, for the Eastern Lines, is \$1,279,111.72, for the six months ending December 31, 1927. On the balance of the system, the total is \$22,887,393.43, which includes the Eastern Lines for the first six months. The first item under Equipment, is Steam Locomotives, \$5,836,383.92.

Mr. HARRIS: That is net? What is the retirement?

Mr. HENRY: That is net.

Mr. HARRIS: Give us the total of the retirement on that?

The CHAIRMAN: The next page shows the numbers, but not the values; 91 retired, and additions of 56.

Mr. COOPER: The total ledger value of the retirements was \$1,172,489.

Mr. HARRIS: Is that the net value of the retirements, after the scrap value has been deducted from the original cost?

Mr. COOPER: That is the ledger value, the original cost.

Mr. HARRIS: What happens to the scrap value?

Mr. COOPER: The scrap value is deducted from that, to arrive at the loss which is chargeable to operating expenses. The ledger value is credited to the Property Account, and debited to Operating Expenses; the salvage then becomes creditable to the Expense Account.

Hon. Mr. DUNNING: So far as this account is concerned, the whole original cost is written off, that is, \$1,172,000, and your total expense for additions was what? It would be, of course, the sum of what is in the account, and \$1,172,000?

Mr. COOPER: The amount of \$5,836,383 is made up of new equipment purchased, additions and betterments, and property retirements. There are additions and betterments to existing equipment, in addition to new equipment bought. The ledger value of the new equipment purchased during the year was \$6,262,313.

Hon. Mr. DUNNING: Locomotives?

Mr. COOPER: Yes, sir. Betterments, \$746,559; retirements, \$1,172,489; net, \$5,836,383.

Mr. HARRIS: What would betterments mean; would that be rebuilding?

Mr. HENRY: Superheaters, stokers, or improvements of that kind.

Hon. Mr. DUNNING: How do you divide the amounts into what is properly chargeable to operation, and properly chargeable to capital, so far as betterments for locomotives are concerned? Suppose you put a new wheel on a locomotive, what would that be?

Mr. COOPER: That would be Operating Expense.

Hon. Mr. DUNNING: Suppose you put a new tire on an existing wheel?

Mr. COOPER: That would be Expense. There would be additions to locomotives which would be renewed by improved type, and in that case the cost to replace in kind would be Operating Expense, and the additional cost, to replace by the improved type, would be a Betterment.

Hon. Mr. DUNNING: There must be pretty fine distinctions at times?

Hon. Mr. STEVENS: You really get at that in this way: when an engine comes into the shop, after a run, there are certain repairs made to it, a new tire, or something of that character, and that would go to Operation without any question. But if the engine were sent to the central shop for an overhaul, and some betterments were added, then the difference would be fixed, I presume, by the schedule that the foreman of the shop would have to fill out?

Mr. COOPER: That is exactly the situation.

Sir EUGENE FISKE: It means that all betterments go to Capital Expenditure, that is all there is to it?

Mr. COOPER: True.

Mr. HENRY: Other locomotives, \$314,067.83.

Mr. HARRIS: Can you give us the average life of a locomotive?

Mr. HENRY: I would not like to venture an answer on that, Mr. Harris. We have some locomotives in services that have been in existence for probably thirty or forty years, but it is very doubtful if there is much of the original locomotive there. The economic life of a locomotive, and that is perhaps the best way to measure it, I do not believe is in excess of twenty-five years. However, it has a certain salvage value, measured in terms of percentage of the original cost, which might be from ten to fifteen per cent.

Mr. HARRIS: It would be very much swallowed up in replacements?

Mr. HENRY: Oh, yes.

Hon. Mr. DUNNING: Some of those old engines must stand for quite a bit on the books, considering the original cost, plus the capital betterments throughout the year? You must have some old engines that have a pretty high book value?

Mr. HENRY: We do not install many improvements on the older types.

Hon. Mr. DUNNING: You said there would not be much of the original locomotive left?

Mr. HENRY: That all goes to Operating Expenses.



Sir EUGENE Fiset: Is it not a fact that the life of a locomotive depends also on the condition of the rail?

Mr. HENRY: To a certain extent, yes.

Sir EUGENE Fiset: For instance, on the Eastern Lines, where you have all curves and only one main line, the life of your locomotive is practically exhausted in from two to three years?

Mr. HENRY: It is true that the rails wear, and flange wear, is greater, but that is an operating expense. Freight Train Cars, \$6,738,342. Passenger Train Cars, \$5,696,616.40. Motor Equipment of Cars, \$239,869.53. Floating Equipment, \$509,634.70. Work Equipment, \$1,070,351.07. Miscellaneous Expenses, \$29,612.14. The total for equipment is \$20,434,877.59.

Mr. JENKINS: Does that Motor Equipment refer to the Diesel cars?

Mr. COOPER: This Motor Equipment is self propelled cars.

Mr. JENKINS: Not steam cars?

Hon. Mr. DUNNING: When you say, Other Locomotives, in Item 52, do you mean electric locomotives?

Mr. COOPER: Yes, sir.

Sir EUGENE Fiset: Nothing is mentioned, as far as the Eastern Lines is concerned?

Mr. HENRY: The equipment is on a system basis.

Hon. Mr. DUNNING: How do you charge the Eastern Lines with its proper proportion of these accounts, or what charge do you make in order to arrive at the Eastern Lines' results?

Mr. COOPER: So far as new equipment is concerned, it is entered in the account of the Canadian National system. The upkeep of that equipment, including the cost of retirements, is divided between the Canadian National System and the Eastern Lines in the proportion of the locomotive mileage made on the two parts of the system, as to the total mileage made by the equipment.

Sir EUGENE Fiset: I would like to know what it is, with regard to the Eastern Lines?

Mr. COOPER: The freight cars are figured on the basis of the freight car miles, and the passenger cars on the basis of passenger car miles.

Mr. JENKINS: How does the cost compare with the electrically operated cars?

Mr. HENRY: I think Mr. Hungerford could answer that question.

Mr. HUNGERFORD: Do you mean the motor coaches that we are using?

Mr. JENKINS: Down in our province you are operating a coach between Summerside and Charlottetown. Is that more economical than a steam operated car?

Mr. HUNGERFORD: Oh, yes, very much more.

Mr. JENKINS: It is very satisfactory.

Mr. HUNGERFORD: It varies, of course, but the total cost for motor coach service is something between 40 and 60 cents a mile, and for a small steam train it is something over a dollar a mile.

Mr. JENKINS: You do not attempt to make long runs?

Mr. HUNGERFORD: No. On long runs it requires a mail service and express service, which we cannot provide for on that type of equipment.

Hon. Mr. DUNNING: The difference is the difference between 60 cents a mile and a dollar a mile?

Mr. HUNGERFORD: The actual cost of operation on the different runs depends on the schedules, and whether they have to handle trailer, and things of that kind, and the character of the unit itself. Some units are more expensive to operate than others, their capacities may be larger, but the spread is something between 40 and 60 cents a mile, for units of that description, and a dollar a mile, which is the cheapest you can operate the smallest steam train.

Hon. Mr. DUNNING: Go back to the general question of the apportionment of the equipment?

Mr. HUNGERFORD: The interest on the investment in equipment is distributed in this way. Each Corporation is credited with the interest on its ownership of equipment. Some of this interest charge is then distributed back to each corporation, on the mileage basis. They are credited with what they own, on the one hand, and then the entire amount is distributed back to these corporations on the basis of the mileage that is made on the respective corporate lines.

Hon. Mr. STEVENS: That sounds reasonable.

Mr. HUNGERFORD: The incidental maintenance of the equipment is handled in the same way. It is all thrown into a pool, and then charged back to the corporation on the basis of the mileage made.

Sir EUGENE Fiset: Take the different items here, and take the proportion due to the Eastern Lines, and you will see just what we are getting.

Hon. Mr. DUNNING: We will do that. We will take that \$1,279,000, which is for six months on the Eastern Line, and we will double it. We will deduct from the general system the six months of the Eastern Lines which is included in it, and then we will get the proportion of that and compare it with the mileage proportion.

Sir EUGENE Fiset: Will you be willing to give us the exact amount?

Hon. Mr. STEVENS: If you will undertake to pay it, if it is against you.

Hon. Mr. DUNNING: There is a feeling that the Eastern Lines are being starved. It will not take long to calculate this and see how it works out.

Mr. HENRY: It is eight per cent of expenses, and seven per cent of mileage. General: Organization Expenses, \$6,418.56. General Officers and Clerks, \$12,288.17.

Sir EUGENE Fiset: Does that include all salaries?

Mr. HENRY: That includes those which are chargeable to betterments.

Mr. COOPER: It is only the officials or staff who are assigned specifically to construction work. No proportion of the general office salaries is charged to betterments.

Sir EUGENE Fiset: Does that include your Roadmasters' salaries?

Mr. HENRY: No.

Mr. COOPER: This is the superintendents' account.

Mr. HENRY: Law, \$18,960.47. Stationery and Printing, \$6,655.18. Interest during Construction, on the Eastern Lines, a credit of \$7,950.44; for the balance of the system a charge of \$362,232.15. Other Expenses—General, for the Eastern Lines, a credit of \$2,063.87; for the balance of the system, a credit of \$4,148.39. The grand total for the Eastern Lines is \$1,269,097.41; and for the balance of the system, \$43,724,677.16.

Mr. HARRIS: Before you pass that item of \$44,000,000, Mr. Chairman, would it be asking too much of the C.N.R. to give us a statement from 1923 of the capital account items?

Mr. HENRY: In a similar manner?



Mr. HARRIS: The total showing of number 701 for the four years since 1923, together with the retirements, and show, at the same time, the amount charged to Investment in Road and Equipment?

Mr. HENRY: You would like to have it divided between the gross amount and the net amount charged?

Mr. HARRIS: The gross retirements?

Mr. HENRY: Could we do that, Mr. Cooper?

Mr. COOPER: I do not think we could get it, in that detail, for 1923 and 1924; probably we could from 1925 down.

Mr. HARRIS: The previous question I asked was based on this.

Mr. COOPER: You asked us if we used the same distribution. Now you are asking us if we have the gross retirements, and the net. I think both answers were correct, that we used the same distribution for the five years, but we have more detail for the last three years than we had for the first two.

Mr. HENRY: More detail assembled at headquarters. These are made up by regions, and come into headquarters from the different regions. What Mr. Cooper has in mind is having to go back to the regions to get the details to meet your request.

Mr. HARRIS: It would not be included in this statement for 1924, for instance?

Mr. HENRY: You have a similar statement each year, but you are asking for a statement including the gross retirements and the net. Mr. Cooper says that for 1923 and 1924 it is doubtful if we have those figures readily available. To get them, we would have to send out to the regions.

Mr. HARRIS: We can get it for 1925, 1926, and 1927?

Mr. COOPER: We have this similar statement for the five years.

Mr. HARRIS: I understand that, but this statement does not get you anywhere; it does not give you what is on the books now, unless you just take the bald statement of No. 701. It just tells you what is on the books, the grand total.

Hon. Mr. DUNNING: That is the grand total for all time.

Mr. HARRIS: We do not know what is on the books for any one of these particular items.

Mr. COOPER: I could not give you that, Mr. Harris; I could not divide our account No. 701 up by this classification. Our account No. 701 goes back to 1850.

Mr. HARRIS: I am not asking you to divide it for more than the five-year period.

Mr. COOPER: I can give you that for the five years.

Mr. HARRIS: That is, the net?

Mr. COOPER: Yes, the net.

Mr. HARRIS: Can you give us the gross?

Mr. COOPER: The gross and net for three years.

Mr. HARRIS: And the retirements?

Hon. Mr. STEVENS: There is a very interesting question that I would like to ask, arising out of this item No. 701. We have the figure here of \$1,914,939,-182. This represents Investment in Road and Equipment. It would appear from the analysis that we have just pursued, that the accounting staff is dividing the charges in a very reasonable way. We will assume that has gone on during recent years, and will be continued. This figure represents, as the Chief Accountant now intimates, an accumulation of accounts for fifty years. How

are we, as shareholders of this corporation, to judge of the real value of that figure? Is there any suggestion from the Company's officers of what merit that figure really has?

Mr. HENRY: It depends entirely on the basis upon which you are going to judge the value, Mr. Stevens, whether it will be judged by what it would cost to reproduce the property at present day prices, or otherwise.

Hon. Mr. STEVENS: The reproduction value, or replacement value, is a very fair value to you.

Mr. HENRY: On the other hand, the price scale is very much higher now, as you know, compared to what it was before the war.

Hon. Mr. DUNNING: I suggested this to Mr. Henry some time ago. After all, it is all theoretical. We are just trying to get some approximation. I asked the question as to the relative investment in road and equipment per mile on roads that are comparable with this one. The Canadian Pacific Railway of course, is not comparable, but Class A. roads in the United States are pretty closely comparable. If you take a Class A. road that operates under Northern United States conditions, and deal with it from that point of view.

Mr. JENKINS: The New York Central, for instance?

Mr. HENRY: The roads that are in thickly populated terminal districts have higher expenses.

Hon. Mr. STEVENS: Why is the Canadian Pacific not comparable? I am asking that question because you make the suggestion. Why would not the Canadian Pacific be more comparable than any of the American roads?

Hon. Mr. DUNNING: The Interstate Commerce Commission lay down a system in their classification. But the Canadian Pacific have made changes in their system of accounting, and also changes in their usages.

Hon. Mr. STEVENS: You mean that they have not got the facilities to give you the figures?

Hon. Mr. DUNNING: No. During the past, the Canadian Pacific have put into the road revenues not charged in their investment account. So far as investment in road and equipment is concerned, there is not a railway on the North American Continent that compares, in that regard with the Canadian Pacific. Is that right?

Mr. HENRY: Very few of them, at any rate.

Hon. Mr. DUNNING: They have worked it out in a different way. They have put money back into the road continuously, but not into the investment account.

Hon. Mr. STEVENS: Supposing you took half a dozen leading American roads, and compared them with this, how do they run? Do they show a fairly uniform comparison?

Mr. HENRY: Yes, in various sections they do. They run anywhere from \$60,000 to \$75,000 or \$80,000 a track mile. But you have to make another calculation, you must reduce it to an equivalent basis. The ordinary road mile is sometime 1, 2, 3, or 4 tracks, and you have to consider all these different elements to get it down to a reasonable basis. For what we call "equivalent track mile", based upon that, it would probably be from \$60,000 to \$80,000.

Hon. Mr. STEVENS: A double track line, for instance, would have a larger proportion of equipment than a single track line? It is not just merely a difference in mileage?

Mr. HENRY: I am talking about the road only.

Hon. Mr. STEVENS: There would be a larger percentage of equipment for five hundred miles of double track, than there would for one thousand miles of single track.



Mr. HENRY: The figures which I gave do not include equipment. On the question of equipment, traffic, and other things, you have to consider the density of traffic to decide whether you have enough equipment.

Hon. Mr. STEVENS: How are we to estimate the value of the road? This figure of \$1,900,000,000 might include a lot of stuff that in the next ten or twenty years might have to be written off which would cause that figure to shrink a lot. Or would you say that this figure will carry itself along fairly uniform?

Mr. HENRY: A good deal of that represents a pretty substantial permanent investment, that will be of considerable value later on. Whether it is too high or too low, from the standpoint of its ability to produce earnings—which, I imagine, is the point you have in mind—is a question I am not prepared to answer.

Hon. Mr. STEVENS: Let me get at it in another way. We are getting to the place now where we expect that this system will earn something on its investment, other than its interest on the obligations to the public. Now, it is not fair to ask the system to pay dividends on an abnormal valuation of these assets, although we may put the money in. It would be better for this country to write them down to a fair valuation, and then try to bring the earnings of the company up to that point, rather than to carry along a lot of dead assets. I am not saying that they are dead, but if they are they should be eliminated.

Hon. Mr. DUNNING: I am very glad to hear you express yourself in that way.

Hon. Mr. STEVENS: That has been my opinion for many years. I think that great care should be taken not to write down these assets recklessly. I do not advocate anything of that character, but I think we ought to work out some method of ascertaining the true value of these items.

Mr. HENRY: If it were in the United States, the equitable way to get at it would be to compare it with similar investments in roads of about the same traffic under the same conditions. If a road has a higher investment than the average, the chances are that it would not earn anything more than the average. The Interstate Commerce Commission are endeavoring to bring about that same thing. They have divided the country into regions, and they are endeavoring to bring about a scheme, the result of which will be that all roads in a certain territory will, on the average, earn five and a half or six per cent upon a reasonable investment.

Hon. Mr. STEVENS: Would there be an insuperable difficulty in asking that such a comparison be made, and tabled?

Hon. Mr. DUNNING: It is the same thing that I have been trying to get at for months, but there are too many factors to work out to get it very quickly.

Hon. Mr. STEVENS: You join me, and we will see what he has to say.

Hon. Mr. DUNNING: The Government is very much interested in getting that information, for precisely the same motive which you have stated. They want to see if some practical way cannot be evolved of getting this picture of our Canadian National situation before the public in an understandable way. We do not want to rob Peter to pay Paul, but to get it on a basis which is defensible from a business point of view. It is a problem of great complexity.

Hon. Mr. STEVENS: I have no doubt of that, because one has merely to look at these accounts to appreciate the complexity of the whole matter.

Hon. Mr. DUNNING: If you had the accounts from the 97 companies that are involved, and their corporate relations one with the other, then you would appreciate what it is necessary to do to accomplish that, or to determine what the end is to be. That is, we could very easily gather, in the course of a few months, the material necessary to enable us to deal with the item that we are now looking at, No. 701, and to say that that item should be so and so, and it



should not be what it is. But when you come to the problem of distributing any reduction that might be made, having regard to the inter-corporate relations which we inherited when we took over these companies, I can assure you it is a very difficult matter, but it is one which we should continue to strive to accomplish. Just to take one illustration, Mr. Stevens, without mentioning the company; here is a company which has a bond issue outstanding—one of these associated companies—which represents a theoretical part of this investment. These bonds are not guaranteed by the Government, but they are guaranteed by another one of the constituent companies comprising this aggregation. In turn, certain obligations of the second company have a relationship, from the point of view of guarantee, to the results of a third company. Now, if you agree that holus bolus, regardless of Government obligations, we will pay everything, why, then, you can commence to deal with it. But I doubt very much if you, or any other business man, would agree to consider it on that principle. That is, you would want to weigh every obligation, and see just what we really were entitled to pay.

Hon. Mr. STEVENS: I appreciate all that the Minister says, but I cannot see that that applies to the request which I made regarding item No. 701.

Hon. Mr. DUNNING: If you forget that item No. 701 is a consolidation then, of course, you are right, but the moment you recognize that item 701 represents a similar account in just short of 100 companies—

Hon. Mr. STEVENS: There is no other system but what that would apply to, in a greater or lesser degree.

Hon. Mr. DUNNING: But the Government would not be as foster father, and there would not be the finances of the company to obligate it.

The CHAIRMAN: Mr. Henry has the C.P.R.'s statement here, and he will read you a few items.

Mr. HENRY: Property Investment, Including Railway Rolling Stock Equipment, and Lake and River Steamers, at December 31st, 1927, according to their 1927 report, is \$686,387,126.

Hon. Mr. DUNNING: That is a capital charge?

Mr. HENRY: That is a capital charge that they carry in their direct account.

Hon. Mr. DUNNING: Everybody knows that the actual investment in the C.P.R. roadbed, and steamers, is away in excess of that.

Mr. HARRIS: The Minister referred to Class A. companies in the United States, running in the northern zone. Might I ask if the same accounting system is followed by our road as is followed by the Class A. roads?

Mr. HENRY: Yes.

Mr. HARRIS: How many Class A. roads are working off depreciation, and setting up a sinking fund?

Mr. HENRY: I think all of them, from 1907, have charged depreciation, or accounted for depreciation on equipment. Some of them have set up depreciation accounts on certain roadway items, but not very many.

Hon. Mr. DUNNING: Take the Grand Trunk Western, as an illustration, because it comes under the Interstate Commerce Commission; what do you do with the Grand Trunk Western?

Mr. COOPER: We accrue depreciation on the equipment.

Hon. Mr. DUNNING: According to the standard set by the I.C.C.?

Mr. COOPER: The Commission do not set a standard. While it is compulsory to take depreciation, the accounting effect on the carrier, which is allowed to choose its own rate, is somewhat nullified. When a road sets up an equivalent of half of one per cent per annum, it is complying with the regulation, but it is not getting anywhere.



Mr. HARRIS: How many use half of one per cent?

Mr. COOPER: I took that as an extreme case. Until three or four years ago, we only had two per cent ourselves.

Mr. HARRIS: What is the other extreme?

Mr. COOPER: A road that wanted to retain its profits, and put them in reserve, would go up to six per cent.

Hon. Mr. DUNNING: The Great Northern has done that.

Mr. COOPER: I do not know the percentages of the different companies. The Commission, by an Act of Congress in 1920, were instructed to go into this question of depreciation. After seven years of study they have not yet reached the point where they can issue instructions as to what the carriers should do. They had a big body of experts working on that, and they have had hearing after hearing. It is probably the most contentious question, in the railway accounting sphere, to-day. They issued an order last year requiring the carriers to set up depreciation on roadway property, as well as on equipment, but they immediately had to suspend the going into effect of that order.

Hon. Mr. STEVENS: I wish to say that I think the system followed by Mr. Cooper is a very sound one, if we were certain of the merits or the values lying behind this \$1,900,000,000. That is the chief weak spot I can see. What merit is there in writing off the full cost of these, if you do not know what has been done for forty years out of fifty? To my mind, that nullifies the whole process. If you started at a given time with new equipment, and carried that statement right through, then I would be inclined to think it was just as good as if you carried the system of writing off all depreciation. But, to my mind, it is more or less vitiated in the absence of definite information about the real value of this \$1,900,000,000.

Mr. HARRIS: That would be quite right for a period of, say, fifty years, but when you are starting with a lot of new equipment, such as we have had in the last five years with this particular road, then the observation of my hon. friend does not hold.

Hon. Mr. STEVENS: I am not inclined to enter into any controversy on that point.

Hon. Mr. DUNNING: You both get back to the same point.

Mr. HARRIS: In the meantime we are going up and down.

Hon. Mr. DUNNING: We are on the switchback for a time.

The CHAIRMAN: Your contention, Mr. Stevens, is that there must be a lot of equipment on hand, materials, buildings, and bridges, which have been charged up at their actual cost and on which there has been no depreciation charged at all.

Hon. Mr. STEVENS: I am not making any assertion, I simply do not know.

Hon. Mr. DUNNING: It goes back into the years of corporate history when the investment in road and equipment, under No. 701, was made in the old way.

Hon. Mr. STEVENS: I have had the idea for some years that the best thing to do would be to make a physical appraisal of the whole system.

Hon. Mr. DUNNING: You are looking rather at the symptom, and I am looking at the disease, that is the only difference between us. This problem is being wrestled with, but it will require a great deal of work and study. We are all the time discovering things in connection with the early history of the Grand Trunk, which we did not know before. One or two inconsistencies have come to light in the last year, which have affected some particular sections of this aggregation of companies, and which we tried to handle to the advantage of the system, when we discovered them.

The CHAIRMAN: I do not think it is necessary to go into page 22. On page 23 we have simply a detailed statement of the replacements and new purchases.

Hon. Mr. STEVENS: As far as the locomotives are concerned, that will be dealt with when we receive this supplementary statement.

Mr. HENRY: Mr. Harris only asked for account No. 701.

Mr. HARRIS: I asked for the items included on page 21, from 1 to 77.

Hon. Mr. DUNNING: Did you understand that, Mr. Cooper?

Mr. COOPER: I understand I had to give the net for five years, and the gross and net for three years.

Hon. Mr. DUNNING: Could you do it on the individual items, as well as on the total?

Mr. COOPER: Yes.

Hon. Mr. DUNNING: Tell Mr. Harris definitely what you can do.

Mr. COOPER: I am not quite sure whether we can do it just as Mr. Harris wants it. We have a restatement of these investment expenditures, under what we call the Engineering Classification, and which gives us the gross and the net. It deals with the same total figure, but it goes into a little more detail. It does not classify them exactly under the same heading.

Mr. HARRIS: But from one year to the other they would be comparable.

The CHAIRMAN: Let us turn now to page 25, "Loans from Dominion of Canada".

Hon. Mr. DUNNING: You wanted to go into the outstanding bonds, Mr. Stevens, the other day?

Hon. Mr. STEVENS: Yes.

Hon. Mr. DUNNING: Is it necessary to read all these figures?

Hon. Mr. STEVENS: I do not know, not as far as I am concerned, but I am not speaking for the rest of the Committee. If they want to go into them, I have no objection.

The CHAIRMAN: If anybody wants to ask questions, I think in that way we would get through it more quickly than by going through all these different items.

Hon. Mr. STEVENS: My difficulty is that I had a question on these original accounts, which are a little different from the printed ones, but I think I can probably bring out my query as to that. You will probably permit a question, Mr. Chairman; it is not quite in regard to these Loans, but what I was going to ask Mr. Cooper or Mr. Henry was this; there are retirements in connection with the Public Debt, set forth in this statement of accounts.

The CHAIRMAN: What page is that on, Mr. Stevens?

Hon. Mr. STEVENS: The page is not numbered.

Mr. COOPER: It is in the Foreword of the report.

Hon. Mr. STEVENS: Setting forth the new issues and the retirements.

Mr. COOPER: They are also shown on page 7 of the printed report.

Hon. Mr. STEVENS: That is all right.

Hon. Mr. DUNNING: We do not need to go into the other one, then.

Hon. Mr. STEVENS: It is in the preliminary statement of Sir Henry Thornton; I presume it has really to do with the bonded indebtedness. There is an item, Equipment Trust Certificates of various issues, \$5,291,400. Will Mr. Cooper please explain that item?

Mr. COOPER: These are instalments of certain equipment issues which fell due for retirement during 1927, and were paid off.



Hon. Mr. STEVENS: As I understand it, the Equipment Trust Certificates are sold in connection with the purchase of equipment?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And, on each payment you pay interest and retire a certain amount of the principal?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: It amortizes itself over a certain period of time?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: The query I really want to make is this; were these payments the normal payments within the life of the equipment?

Mr. COOPER: Yes, shorter than the life of the equipment.

Mr. HENRY: They are made for varying periods, fifteen or twenty years, and one-fifth is paid each year.

Hon. Mr. STEVENS: Do you think this is the proper place to bring them in and show them? I thought they would be a sort of self-sustaining thing, a part of the separate obligations and not a part of the general obligations of the Company.

Mr. HENRY: You think they should be retired out of revenue?

Hon. Mr. STEVENS: Yes.

Mr. HENRY: They are not, under our system.

Hon. Mr. STEVENS: Why should they not be?

Mr. HENRY: They do not relate to the life of the equipment particularly; it may be a fifteen year series. That would mean that the whole of the capital would be retired in fifteen annual payments, whereas the life of the equipment might be thirty years.

Hon. Mr. STEVENS: I will admit that I am a bit ignorant of this, but as I understand it, we buy a locomotive, we issue a Certificate, a Bond, or an Equipment Trust Certificate. I do not know what length it is, but the period of these certificates is based upon the general expectation of the prospective life of that implement, whatever it is.

Mr. HENRY: No. There is a very substantial margin of safety.

Hon. Mr. STEVENS: Very good.

Mr. HENRY: The margin of safety is probably not over sixty per cent, and even then you have a 25 per cent cash investment over and above it.

Hon. Mr. STEVENS: My point is, that the genius of the whole Equipment Trust Certificate is that over years of experience certain terms have been accepted as reasonable for the life of that equipment, plus a margin of safety. Would you not agree with that?

Mr. HENRY: Yes. But that has not got anything to do with the operating expense at all. The operating expense is designed on a different basis; one is the depreciation, the other is a sinking fund for the purpose of retiring the bond. But the bond itself may not and does not as a rule have any relation to the life at all.

Hon. Mr. STEVENS: Should not that bond, however, be retired out of the earnings of the Company?

Mr. HENRY: I do not think it should, as a general rule. That rule should only apply in a case where the two of them synchronize.

Hon. Mr. STEVENS: And if they do not synchronize with that portion, we will say 60 per cent, if you like, of the life of the equipment, the margin of safety would be 40; 40 is the only part which should be paid out of the renewal or a further issue of the bonds?

Mr. HENRY: The answer is that it is not done that way. The reason for that is, because one is a financial transaction and the other is an operating transaction. If you could relate what your issue to the public is, with the life, there might be something in it, but it is not done that way. That is as good an answer as I can give.

Hon. Mr. STEVENS: Here is the point. You made an issue of \$83,896,000 of new bonds?

Mr. HENRY: So far as Equipment was concerned, last year we issued—

Hon. Mr. STEVENS: \$15,000,000 Equipment Trust, Series J. Bonds; \$15,000,000 is here, part of which, \$5,291,000, was used to retire existing Equipment Bonds?

Mr. HENRY: \$5,291,000 of those were—that was the capital—they were used to retire the payments on account of capital, the annual payments on account of principal of these Equipment Trusts.

Hon. Mr. DUNNING: We could not use it up. Take into account that when equipment retires from service it is all written off; if you take the picture in that way, you can see it.

Major BELL: You take your capital charge for Equipment. When you buy it, instead of working off \$5,000,000 every year for fifteen years, pay it all at once and then retire your equipment in the way we do it.

Hon. Mr. STEVENS: But you are retiring this \$5,291,000 within a year after you issue the \$15,000,000.

Major BELL: Instead of paying the whole thing at once, we spread it over fifteen years, which is the usual way. It used to be twenty years. Say we buy \$75,000,000 worth of Equipment, it would be spread over a term of years at \$5,000,000 a year. Of course the whole \$75,000,000 could be paid at once.

Mr. HENRY: That is met out of the general issues guaranteed by the government but not specifically applicable to that equipment.

Hon. Mr. STEVENS: In other words, all your issue for Equipment Bonds goes for new Equipment?

Mr. HENRY: Absolutely.

Hon. Mr. STEVENS: This \$5,291,000 is not taken out of the \$65,000,000?

Mr. HENRY: Yes, indeed, it comes out of the \$65,000,000. But it is not a specific Equipment Issue.

Hon. Mr. STEVENS: Let me ask this question. Can Mr. Cooper tell me if this is the system followed by the American Roads; do they follow this classification of accounts?

Mr. COOPER: Without exception, Mr. Stevens.

Major BELL: It is known as the Philadelphia plan.

Hon. Mr. STEVENS: And this is following the Philadelphia plan?

Major BELL: It is following the Philadelphia plan, which was inaugurated over there.

Hon. Mr. DUNNING: If the retirement system were not followed, it would ball up the whole works.

Mr. COOPER: Yes.

Hon. Mr. DUNNING: If writing off the equipment at the time of retirement were not followed, it would throw the whole thing out of gear.

The CHAIRMAN: Are there any other items arising out of page 25?

Hon. Mr. STEVENS: There was another question, but it has become stale in my mind. Go ahead.



The CHAIRMAN: You had a couple of questions you wanted to put, when we came to the Funded Debt?

Hon. Mr. STEVENS: You may go ahead, as far as I am concerned.

The CHAIRMAN: Now let us turn to page 26.

Hon. Mr. STEVENS: This thing is so complicated that unless one sticks to it he cannot follow it. Three weeks ago, when these statements were first given to us, I checked them over but have not looked at them since. There is an item here somewhere of an amount due of \$40,448,000, interest on public debt.

The CHAIRMAN: It is on the last half of page 27, Interest Accrued 1927.

Sir EUGENE Fiset: It is in the second column.

Mr. HENRY: That appears in the Income Account, page 15, item 546.

Hon. Mr. DUNNING: It is interest accrued in 1927.

Mr. HENRY: That item represents the amount of interest accrued in the accounts, that is, interest on funded debt accrued in the accounts during 1927.

Sir EUGENE Fiset: These are the amounts due to the public?

Mr. HENRY: Amounts due to the public.

Mr. JELLIFF: How much of that has been paid out of the earnings of the Company to the public?

Mr. COOPER: In the 1927 calendar year, we were short of earning that full amount, \$2,182,373.

Mr. JELLIFF: Was that in 1926?

Mr. COOPER: 1927.

Hon. Mr. DUNNING: What did you have in excess of the retirements the previous year?

Mr. COOPER: \$4,556,639. Taking the two years together, we had an excess of \$2,270,000 over and above the full interest due to the public, and if you take the two government fiscal years, March, 1927, and March, 1928, in both years we earned the full interest due the public.

Mr. JELLIFF: How much of that will fall due this coming year?

Mr. COOPER: I do not know.

Mr. JELLIFF: Can you figure out the items here?

Hon. Mr. DUNNING: At the time of maturity, tell us that. As I remember it, we have not very much this year. There is an issue of Equipments there, Equipment Trust Series.

Mr. COOPER: In the budget of 1928, we are asking for \$9,634,755.

Sir EUGENE Fiset: What is the amount?

Mr. COOPER: \$9,634,000.

Mr. JELLIFF: That is, to retire a portion of the funded debt falling due.

Mr. COOPER: Payments on Equipment Trust Notes and other capital debt.

Mr. JENKINS: These items guaranteed by the Province of Manitoba, do you retire those, and those guaranteed by other provinces?

Mr. COOPER: Probably provision will be made in the 1929 budget to retire them, but that does not come up this year.

Mr. JENKINS: Or there may be a reissue.

Mr. COOPER: Yes.

Mr. JENKINS: They are guaranteed by the different provinces, but are payable by the Dominion.

Mr. COOPER: I do not know about the Dominion guarantee.

Mr. JENKINS: Will you retire those as they come due in 1929 and 1930?

Mr. COOPER: I would say we would.

Hon. Mr. DUNNING: Each province has as security for its guarantee a mortgage on the road.

Mr. JENKINS: You treat these just as they come due?

Hon. Mr. DUNNING: It will be a question of policy of the government of the day, when they mature. I cannot conceive of any government allowing that piece of road to go for the amount against it.

Hon. Mr. STEVENS: Have you ever been in the position of calling up a province to make good its guarantee?

Hon. Mr. DUNNING: I was in the position of being called upon by Major Bell, when I was Provincial Treasurer of Saskatchewan. I did not pay him, I paid the bondholders. I proceeded to take advantage, as any Provincial Treasurer would, of the terms of the Trust Deed. The Dominion Government of that day were aware of the terms of the Trust Deed. They allowed me to pay three payments, but did not allow me to pay the fourth one, because that would have put me in possession of the road. After that they allowed the payments to lapse, and then let me pay another three. But that is all over now.

Hon. Mr. STEVENS: In regard to the guarantee of the British Columbia section, has the interest been earned upon that, I mean, has the interest been paid out of the earnings of that section?

Mr. COOPER: It is not segregated.

Hon. Mr. DUNNING: There is no segregation.

Hon. Mr. STEVENS: I do not suppose there is any need of segregation, when you adopt the policy of paying, but suppose you follow it to the extreme and say you will let the province take this, you will then have to segregate it, to determine what is past due.

Major BELL: Do you speak of the British Columbia line now, Mr. Stevens?

Hon. Mr. STEVENS: Yes.

Major BELL: It does not earn the interest.

Hon. Mr. STEVENS: Is the interest guaranteed by the Province of British Columbia?

Major BELL: That is guaranteed by the Province of British Columbia.

Hon. Mr. STEVENS: They are more or less in default?

Major BELL: We could put them in default.

Mr. JENKINS: But you would have to give them credit for the business originating on their line, would you not?

Major BELL: There would be a long legal fight over it.

Hon. Mr. DUNNING: If we ceased paying them, British Columbia would have to pay the bondholders, and under the Trust Deed the British Columbia government would take possession of the road. What we would do then would depend upon negotiations.

Hon. Mr. STEVENS: It has not earned interest, on that section?

Hon. Mr. DUNNING: I do not think anybody has, and I do not think you do.

Hon. Mr. STEVENS: I do not think so, either, but I should think within the last two years it would be approaching that condition, with the increase of traffic.

Major BELL: The benefit is increased traffic, increased business, which they would not have if they took it over.

Mr. JENKINS: It would break up the road.



The CHAIRMAN: I do not think we need to take up page 28; that is, Statistics of Rail-Line Operation. The same with page 29.

Hon. Mr. DUNNING: These are all simply informative statements of tonnage and so forth—I do not think there is anything there—and a schedule of the company's present situation.

I think that pretty well completes the accounts, Mr. Chairman.

The CHAIRMAN: The only questions we have to determine now are the questions Mr. Harris asked.

Hon. Mr. DUNNING: There was a question asked the other day, upon which you are obtaining information, Mr. Cooper. That was not your question, Mr. Harris?

Mr. HARRIS: Yes.

Hon. Mr. DUNNING: The Toronto business, Toronto and Scarborough. Are there any other questions, Mr. Chairman, relating to the accounts, or anything that we should raise, to give the staff time to get it?

The CHAIRMAN: I do not remember any others than those I have mentioned.

Sir EUGENE Fiset: We might as well adopt the report, and proceed with the evidence as to the Estimates.

The CHAIRMAN: If you are satisfied, will you move the adoption of it?

Sir EUGENE Fiset: I will move that the report be adopted.

Hon. Mr. STEVENS: Just one moment, Mr. Chairman. I think probably we might as well wait until we get the answers to these questions, before we adopt the report. There is no rush about it.

Hon. Mr. DUNNING: No rush at all.

The CHAIRMAN: Mr. Harris' questions will take some time.

Mr. HARRIS: I understand they will not take much time.

The CHAIRMAN: Can you have the information ready by Tuesday, Mr. Cooper?

Mr. COOPER: I think so.

Hon. Mr. DUNNING: I move, Mr. Chairman, that we adjourn until Tuesday next.

The Committee adjourned until Tuesday, April 24, 1928.























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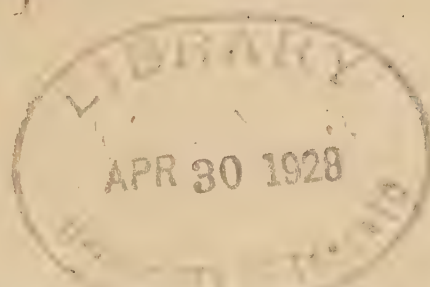
Canada - Railways and Shipping  
Standing Committee. 1928

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SESSION 1928  
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON



# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5—APRIL 24, 1928

WITNESS:

Sir Henry Thornton, President, C. N. Railways,

Assisted by: Mr. Henry, Bureau of Economics; Mr. Cooper, General Auditor; Major Bell, Director, C. N. Railways; Mr. Doherty, Traffic Manager, Canadian Government Merchant Marine, and others.

OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1928





## MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

TUESDAY, April 24, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, opened proceedings at 11 o'clock a.m., this date, Mr. Goodison, the Chairman, presiding.

Members of the Committee present:

*Messieurs:* Bell (St. Antoine), Cantley, Chaplin (Hon. J. D.), Stewart (Leeds), Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens (Hon. H. H.)—(15).

Sir Henry Thornton, President; Mr. Hungerford, Major Bell, Mr. Robb, Mr. Ruel, Vice-Presidents; Mr. R. A. C. Henry, Mr. Cooper, Mr. Doherty, and numerous other officials of the C.N. Railways and Merchant Marine, were in attendance.

On opening the meeting the Chairman stated that questions which had been asked at the previous meeting, the answers to the same had now been prepared and would then be submitted to the meeting. Mr. Henry was asked to read the answers prepared, and the same were incorporated in the record of proceedings, as follows:—

1. Balance Sheet of Central Vermont Railroad as of the approximate date of the flood.
2. Statement of the food conditions and the damage which ensued therefrom.
3. Statement of the amount of money included in items 2 and 3, page 21 of the annual report under the caption "Roadway" which related to land and grading during 1927, charged to this account, in respect to Toronto and the Township of Scarboro, but not included in the terminals.
4. Memorandum re Equipment Trusts, and the relation of same to the Accounting practice with respect to the equipment retirements and the charges to operating expenses.

Some further discussion on Canadian National Railways and equipment.

Annual Report of the Government Merchant Marine taken up. Assets and Liabilities and Capital discussed; Operating Account and Deficit Account discussed at some length.

Report Adopted.

It was decided by the Committee that a general report would be submitted to the House after all matters had been considered.

Committee adjourned to meet again to-morrow—Wednesday—at 11 o'clock a.m.





# MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

TUESDAY, April 24, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock A.M., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: Gentlemen, we will proceed. In the first place, there were some questions asked to which answers were to be given this morning.

Sir HENRY THORNTON: Mr. Henry, will you give the answers to the questions which were asked?

Mr. HENRY: Mr. Harris asked for the balance sheet of the Central Vermont Railroad as of the approximate date of the flood. I present herewith the balance sheet.

## CENTRAL VERMONT RAILWAY COMPANY

BALANCE SHEET AT OCTOBER 31ST, 1927

Assets		Liabilities	
	\$ cts.		\$ cts.
<i>Investments—</i>		<i>Stock—</i>	
701 Investment in Road Equipment.....	22,836,402 93	751 Capital Stock.....	3,000,000 00
702 Improvements on Leased Railway Property.....	842,103 87	<i>Government Grants—</i>	
705 Miscellaneous Physical Property.....	26,553 50	754 Grants in Aid of Construction.....	58,560 00
706 Investments in Affiliated Companies.....	333,225 51	<i>Long Term Debt—</i>	
Unpledged Pledged		755 Funded Debt Unmatured.....	13,893,165 25
"A" Stocks....\$ 1,400 00 \$141,516 92		757 Non-Negotiable Debt to Affiliated Companies.....	20,411,319 07
"B" Bonds..... 1 00		"A" Notes.....\$ 8,041,905 52	
"D" Advances. 190,307 59.....		"B" Open Accounts..... 12,383,139 31	
707 Other Investments.....	75,101 00	"C" C.N.R. Current Advance Account..... 13,725 76	
"A" Stocks.... 101 00			
"B" Bonds..... 75,000 00			
Total Investments.....	24,113,386 81	Total Long Term Debt.....	34,304,484 32
<i>Current Assets—</i>		<i>Current Liabilities—</i>	
708 Cash.....	423,713 92	759 Traffic and Car Service Balances Payable.....	501,019 06
711 Special Deposits.....	242,138 00	760 Audited Accounts and Wages Payable.....	447,964 25
712 Loans and Bills Receivable.....	6,116 56	761 Miscellaneous Accounts Payable.....	4,015 70
713 Traffic and Car-Service Balances Receivable.....	453,719 31	762 Interest Matured Unpaid.....	247,031 76
714 Net Balance Receivable from Agents and Conductors.....	105,532 15	764 Funded Debt Matured Unpaid.....	3,200 00
715 Miscellaneous Accounts Receivable.....	233,028 97	766 Unmatured Interest Accrued.....	199,070 77
716 Material and Supplies.....	788,908 11	767 Unmatured Rents Accrued.....	916 66
717 Interest and Dividends Receivable.....	1,250 00	768 Other Current Liabilities.....	904 10
719 Other Current Assets.....	78,948 77		
Total Current Assets.....	2,333,355 79	Total Current Liabilities.....	1,404,122 30
<i>Deferred Assets—</i>		<i>Deferred Liabilities—</i>	
720 Working Fund Advances.....	3,827 59	770 Other Deferred Liabilities.....	225,572 87
721 Insurance and Other Funds.....	9,393 76		
722 Other Deferred Assets.....	8,226,829 16	<i>Unadjusted Credits—</i>	
Total Deferred Assets.....	8,240,050 51	771 Tax Liability.....	102,824 08
<i>Unadjusted Debits—</i>		775 Accrued Depreciation—Road.....	226,827 45
723 Rents and Insurance Premiums paid in Advance.....	5,405 48	776 Equipment.....	843,327 54
725 Discount on Funded Debt.....	38,243 88	778 Other Unadjusted Credits.....	248,740 40
727 Other Unadjusted Debits.....	124,924 86	Total Unadjusted Credits.....	1,421,719 47
Total Unadjusted Debits.....	168,573 72	<i>Corporate Surplus—</i>	
		779 Additions to Property through Income and Surplus.....	48,394 21
		784 Profit and Loss—Debit Balance.....	5,607,486 34
		Total Corporate Surplus.....	5,559,092 13
Grand Total.....	34,855,366 83	Grand Total.....	34,855,366 83

Sir HENRY THORNTON: Mr. Harris also asked for a statement of the flood conditions and the damage which ensued therefrom. I will file that statement.

The Central Vermont Railway is a North and South Line, extending from St. Johns, Que., and Rouses Point, N.Y., where it joins the Canadian National Railways, to New London, Conn., together with several Branch Lines with a total mileage of 433.3 miles of roadway.

It is composed of two Divisions, viz., the Northern and Southern. The Northern Division main line extends from St. Johns and Rouses Point through St. Albans, Essex Junction, Montpelier Junction, White River Junction to Windsor a distance of 173 miles, where it connects with the Boston and Maine Railroad. From this main line there are branch lines running generally East and West out of St. Albans, Essex Junction, and East out of Montpelier Junction.

The Southern Division starts at Brattleboro, 49 miles South of Windsor, connection being made with the Northern Division by running rights over the Boston and Maine between these points. The main line of this division runs through Millers Falls, Palmer and Norwich to New London where it connects with the New York, New Haven and Hartford Railroad, and steamers to New York. There is also one branch line from Brattleboro to the West.

The Northern Division runs through the Green Mountains from near St. Albans to its Southerly limit at Windsor, and as is usual in mountainous territory the railway tracks follow the valleys of the main water courses. From Burlington on Lake Champlain the railway follows the Winooski River for a distance of forty miles to Montpelier Junction, the Dog River a further distance of fifteen miles to the divide, and from this point South down the valley of the White River forty-six miles to White River Junction, where the White River flows into the Connecticut River. There are numerous small streams and feeders for these rivers, and many power dams.

Commencing in the evening of Wednesday November 2nd there was a continuous rail fall over this part of the country, and particularly heavy in the mountains adjacent to the railway. The Weather Bureau Reports show that in the vicinity of the Central Vermont Railway from 9.00 p.m. November 2nd to 12.00 noon November 4th, a total of 39 hours during which 8.6 inches of rain fell. The greatest rain was during the first 30 hours and the heaviest fall from 3.00 to 4.00 p.m. November 3rd when 0.62 inches of rain fell.

The effect of such a tremendous volume of water in the mountains can be readily imagined; the precipitous nature of the country induced a rapid fall from the hills into the valleys, where the tributary streams and feeders soon gorged the main rivers, causing an overflow from their banks into the valleys which soon became raging torrents running about twenty-five feet above the normal level. Increased by dam failures letting loose large volumes of impounded waters to add to the main fall, the force of the torrents carried all obstructions before it, and in some cases washing down the natural hills and widening ravines. Buildings in the valleys, highway and highway bridges, railway bridges, embankments and fills, telephone and telegraph lines were entirely swept away or damaged in the mad rush of waters, and where several converging streams joined the main water course as at Montpelier and Waterbury the lower parts of the towns were submerged. In many cases the most severe damage was caused by wooden highway bridges and buildings being



carried down by the streams to the steel railway bridges where a dam was formed and blocked the water so that the added pressure swept the railway bridge and approach away.

Commencing at the North end and where the Central Vermont joins the Canadian National Lines and proceeding South the following brief summary of the damage may be of interest:—

#### MAIN LINES

St. Johns to St. Albans, 42.00 miles; embankment was badly washed out back of North and South abutments of bridge just North of St. Albans, repairs made and line open for traffic November 7th.

St. Albans to Essex Junction, 24.00 miles; no serious damage and line open November 5th.

Essex Junction to Williston, 4.00 miles; only minor repairs required and line open November 6th.

Williston to White River Junction, 90.00 miles; this section of the main line received the full force of the storm and was badly wrecked, steel bridges carried off masonry and washed down stream and broken up, piers and abutments damaged, torn down or undermined, embankments across main river and tributary valleys damaged or washed away, side hill cuts undermined and carried away, of which the following is a partial list:—

Seven steel bridges completely wrecked, will require about 1,800 linear feet of temporary trestle to pass trains. Nine bridges were partially wrecked and will require temporary work. Twenty-four other bridges with minor damage and probable undermining of piers and abutments. Forty-eight bridges in all on which more or less repairs will have to be made.

The embankments across valleys and streams were more or less damaged and washed out the most serious being adjacent to the bridges and on side hills where the rush of water was augmented by the failure of dams across streams letting loose large volumes of water against the embankments. Preliminary survey of the damage to embankments shows that of a total of 90 miles on this section; 69.7 miles good or only slightly damaged, 4.2 miles more damaged but passable for ballast trains, 6.6 miles will require cribbing up to five feet so that the track can be refilled and lifted, 5.8 miles will require heavy cribbing or trestle bents on sills, 1.1 miles of pile trestle required to pass over deep holes, and 1.4 miles of banks have fallen into the river and line will have to be diverted and rebuilt, and 0.6 miles of bridges entirely destroyed or badly damaged. The most serious loss of embankments is between Williston and Montpelier Junction a distance of 28 miles.

From White River Junction to Windsor, 14.00 miles; roadbed was slightly washed in numerous places and repairs were made and line restored shortly after the disaster. At Windsor the Boston and Maine Railroad is used South to Brattleboro a distance of 49 miles where the Southern Division of the Central Vermont commences and runs south a distance of 121 miles to New London. Very little damage occurred on this part of the line, and this was confined to the Northern end between Brattleboro and East Northfield a distance of ten miles where only slight damage to roadbed was reported and speedily repaired.

## BRANCH LINES

St. Albans to Richford, 27.48 miles; for the first 18 miles out of St. Albans there was very little damage and service was possible to Enosburg Falls. From Enosburg Falls to Richford  $9\frac{1}{2}$  miles the damage was heavier, embankments were washed out for a depth of 6 to 8 feet and track carried away and one bridge abutment damaged.

Essex Junction to Burlington, 7.85 miles; two large bridges near Burlington were completely wrecked, the central piers being demolished and steel spans washed in the river and destroyed. Two new steel bridges will be required. There was also some damage to the roadbed.

Essex Junction to Cambridge, 22.29 miles; there was very severe washouts on some parts of this branch and slight damage over almost all. Near Cambridge the entire roadbed was washed away. The large bridges were not damaged.

Montpelier Junction to Barre, 7.96 miles; the principal damage on this line was between Montpelier and the Junction, one bridge was entirely wrecked and several others damaged. Embankments were washed out to a depth of from 4 to 12 feet and the ballast in many places entirely swept away. Both Montpelier Junction and Barre Yards suffered severely and high embankments were washed out at the ends of bridges in several places.

The West River Branch, 35.45 miles; this branch has been severely damaged, one large steel bridge was completely wrecked, and several others badly damaged. The embankments are washed out in several places and slides have occurred burying the track with dirt and refuse. Reports on this branch are not yet complete.

The following is a summary of the estimated total cost of restoring the railway to its former physical condition. This estimate is however based upon the temporary work being done under normal Winter weather, should severe or abnormal weather occur the cost may be increased by at least 25 per cent.

## Northern Division—

	Main Line
Land.. . . .	\$ 900
Roadbed.. . . .	970,840
Ballast.. . . .	83,677
Track.. . . .	56,355
Fencing.. . . .	11,565
Culverts.. . . .	56,298
Bridges.. . . .	715,802
Buildings.. . . .	11,100
Ties lost.. . . .	40,000
Telegraph and Telephone.. . . .	13,000
Miscellaneous.. . . .	6,250
Contingencies.. . . .	189,213
Total.. . . .	\$ 2,155,000



Northern Division—*Continued*

	Branch Line	
Roadbed and Track.. . . .	73,000	
Bridges and Culverts.. . . .	277,000	
Telegraph and Telephone.. . . .	2,000	
Total.. . . .		\$ 352,000

## Southern Division—

	Main Line	
Roadbed and Track.. . . .	25,000	
	Branch Line	
Roadbed and Track.. . . .	36,000	
Bridges.. . . .	100,000	161,000
Grand Total.. . . .		\$ 2,668,000

It is probable that the total expenditure will closely approximate \$3,000,000 before all the lines are permanently restored.  
Montreal, December 3rd, 1927.

Mr. HENRY: Mr. Harris also asked for a third statement indicating the gross expenditure on capital account, the retirements and the net, to correspond with the figures on page 21 of the annual report.

Mr. HARRIS: May I ask if that also corresponds to the years 1925 and 1926?

Mr. HENRY: 1925, 1926 and 1927. I will file that statement.

CANADIAN NATIONAL RAILWAY SYSTEM

ROAD AND EQUIPMENT EXPENDITURES, 1925-1926-1927 PER STANDARD CLASSIFICATION ACCOUNTS 701 AND 702

Road—	Acct. No.	1925			1926			1927			Acct. No.
		701		Total	701		Total	701		Total	
		\$	cts.	\$	\$	cts.	\$	\$	cts.	\$	
Engineering.....	1	349,054	74	359,806	15	398,475	32	740,212	54	743,891	70
Land for Transportation Purposes.....	2	729,710	88	757,799	22	1,955,237	25	2,680,856	05	2,645,953	15
Grading.....	3	2,480,515	36	2,586,850	06	2,671,624	86	5,276,701	17	5,285,450	53
Tunnels and Subways.....	5	26,756	36	26,756	36	52,883	40	37,489	68	37,489	68
Bridges, Trestles and Culverts.....	6	1,685,448	59	1,768,006	27	2,420,219	78	3,069,383	77	3,091,591	91
Elevated Structures.....	7	235	77	235	77						
Ties.....	8	1,414,236	77	1,434,222	35	826,043	03	772,519	70	781,871	68
Rails.....	9	1,984,698	84	2,049,062	83	1,712,597	45	1,550,102	11	1,577,418	83
Other Track Material.....	10	1,865,883	19	1,927,444	89	2,354,468	91	2,591,968	89	2,620,829	67
Ballast.....	11	819,279	45	830,691	71	1,164,872	17	1,627,301	88	1,638,842	86
Track Laying and Surfacing.....	12	1,208,873	49	1,228,362	87	1,159,025	80	1,216,323	93	1,240,185	91
Right-of-Way Fences.....	13	198,121	36	198,378	59	209,739	64	118,953	54	124,535	79
Snow and Sand Fences and Snow Sheds.....	14	29,427	81	34,697	02	18,353	19	28,303	83	30,781	07
Crossings and Signs.....	15	392,414	12	427,637	01	628,385	78	211,012	57	211,162	70
Station and Office Buildings.....	16	796,311	23	810,866	03	1,206,992	93	2,097,765	67	2,121,799	04
Roadway Buildings.....	17	31,742	42	37,301	40	136,953	75	141,416	54	299,803	34
Water Stations.....	18	254,616	11	260,343	04	349,755	69	446,698	68	460,859	06
Fuel Stations.....	19	51,458	40	52,466	67	149,225	78	123,019	01	121,174	68
Shops and Engine Houses.....	20	452,668	28	483,875	41	1,404,901	58	966,519	67	982,482	60
Grain Elevators.....	21	14,454	22	14,996	69	1,174,966	97	66,847	97	63,879	95
Storage Warehouses.....	22	16	01	16	01						
Wharves and Docks.....	23	32,701	20	25,801	26	191,578	13	214,579	53	264,502	36
Coal and Ore Wharves.....	24	391	09	391	09			47	17	2,670	91
Gas Producing Plants.....	25	59,832	77	67,544	74	283	28				
Telegraph and Telephone Lines.....	26	83,423	64	86,461	80	106,061	06	61,360	01	61,842	92
Signals and Interlockers.....	27	58,809	28	58,809	28	87,577	54	363,477	07	390,792	85
Power Plant Buildings.....	29	2,920	39	2,920	39	14,300	40	86,426	56	86,426	56
Power Sub Station Buildings.....	30	7,884	67	8,957	97	1,501	10	218	44	218	44
Power Transmission Systems.....	31	84,932	76	84,973	10	1,011	41	23,847	30	23,847	30
Power Distribution Systems.....	32	69,240	59	69,248	51	33,669	52	97,896	95	95,965	98
Power Lines, Poles and Fixtures.....	33	7,911	15	7,911	15	3,798	41	86,770	59	86,770	59
Underground Conduits.....	34	245,281	07	245,281	07	2,087	41	5,184	41	5,184	41
Miscellaneous Structures.....	35	3,342	82	3,342	82	44,951	78	15,136	12	15,715	82
Paving.....	36	28,450	55	29,248	68	23,225	00	2,561	91	2,561	91
Roadway Machines.....	37	2,736	37	2,970	97	20,107	75	28,269	67	27,622	40
Roadway Small Tools.....	38	118,451	07	125,295	62	20,528	23	14,997	82	14,997	82
Assessments for Public Improvements.....	39					113,130	29	190,737	04	173,362	42
Revenues and Operating Expenses during Construction.....	40	7,288	37	7,288	37	20	93				
Cost of Road Purchased.....	41	201	89	201	89			215,189	59	215,189	59
Other Expenditures—Road.....	43	3,664	63	3,664	63			1,278,201	89	1,278,201	89
Shop Machinery.....	44	62,097	93	56,849	41	3,549	06	150,343	14	150,343	14
Power Plant Machinery.....	45	133,764	59	138,271	98	272,136	06	298,298	21	296,121	51
Power Sub Station Apparatus.....	46	5,420	53	5,420	53	27,858	97	17,220	07	17,220	07
						6,618	39	3,678	79	3,678	79



Unapplied Construction Material and Supplies.....	47	5,034 50	.....	5,034 50	15,658 25	.....	15,658 25	82,350 61	.....	82,350 61	47
		15,763,796 43	514,300 85	16,278,097 28	18,538,152 62	577,778 07	19,115,930 69	24,166,505 15	211,945 79	24,378,450 94	
Equipment—	51	1,067,937 59	4,391 01	1,072,328 60	248,924 30	.....	248,924 30	5,836,383 92	.....	5,836,383 92	51
	52	.....	.....	.....	64,322 26	.....	64,322 26	314,067 83	.....	314,067 83	52
	53	488,906 12	981 02	487,925 10	395,158 91	.....	395,158 91	6,738,342 00	.....	6,738,342 00	53
	54	1,363,198 37	.....	1,363,198 37	785,293 66	.....	785,293 66	5,696,616 40	.....	5,696,616 40	54
	55	523,223 84	.....	523,223 84	14,736 58	.....	14,736 58	239,869 53	.....	239,869 53	55
	56	4,132 54	.....	4,132 54	1,226,226 54	.....	1,226,226 54	509,634 70	.....	509,634 70	56
	57	32,604 03	93,970 58	126,574 61	622,187 74	.....	622,187 74	1,070,351 07	.....	1,070,351 07	57
	58	12,725 18	304 00	13,029 18	36,406 79	2,000 00	34,406 79	29,612 14	.....	29,612 14	58
		1,291,644 43	99,038 61	1,192,605 82	2,105,090 36	2,000 00	2,103,090 36	20,434,877 59	10,793 85	20,424,083 74	
	71	.....	.....	.....	.....	.....	.....	6,418 56	.....	6,418 56	71
General—	72	16 83	.....	16 83	5,826 37	.....	5,826 37	12,288 17	.....	12,288 17	72
	73	557 13	.....	557 13	19 18	.....	19 18	18,960 47	.....	18,960 47	73
	74	4,232 72	.....	4,232 72	8,434 03	.....	8,434 03	6,655 18	.....	6,655 18	74
	75	7,970 02	.....	7,970 02	1,507 50	.....	1,507 50	.....	.....	.....	75
	76	183,570 07	.....	183,570 07	244,971 91	.....	244,971 91	354,281 71	.....	354,281 71	76
	77	27,119 81	.....	27,119 81	22,791 23	.....	22,791 23	6,212 26	.....	6,212 26	77
		222,301 83	.....	222,301 83	237,967 76	.....	237,967 76	392,391 83	.....	392,391 83	
Total Classified Expenditures.....		17,277,742 69	415,262 24	17,693,004 93	20,881,210 74	575,778 07	21,456,988 81	44,993,774 57	201,151 94	45,194,926 51	
Expenditures under Suspense Appropriations.....		264,111 05	7,115 14	256,995 91	587,778 34	11,568 13	576,210 21	384,771-11	65,297 50	319,473 61	
		1,044,708 54	22,481 77	1,067,190 31	1,802,712 13	51,619 41	1,751,092 72	1,587,168 29	921 00	1,588,089 29	
		621,734 98	.....	621,734 98	4,283,617 08	1,522,346 85	5,805,963 93	5,137,702 96	2,321,788 63	2,815,914 33	
		.....	.....	.....	14,944,515 21	.....	14,944,515 21	.....	.....	.....	
		.....	.....	.....	28,544,006 12	660,207 74	29,204,213 86	22,844,278 38	712,185 54	23,556,463 92	
		17,964,827 30	430,628 87	18,395,456 17	31,412,018 36	326,412 32	31,085,606 04	28,489,596 33	2,766,603 73	25,722,992 60	
RECONCILIATION											
				Acct. 701	Acct. 702	Total					
Balance Sheet at December 31st, 1924.....				1,837,072,740 64	5,860,651 08	1,842,933,391 72					
Change during 1925.....				17,964,827 30	430,628 87	18,395,456 17					
Change during 1926.....				31,412,018 36	326,412 32	31,085,606 04					
Change during 1927.....				28,489,596 33	2,766,603 73	25,722,992 60					
Balance Sheet at December 31st, 1927.....				1,914,939,182 63	3,198,263 90	1,918,137,446 53					

## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL RAILWAY SYSTEM

EXPENDITURE ON ROAD AND EQUIPMENT, 1925-1926-1927, PER ENGINEERING CLASSIFICATION.

Group No.	Description	Year 1925			Year 1926			Year 1927			
		Expenditure applicable to Investment in Road and Equipment	Retirement of Property Credited to Capital Account	Expenditure less Retirements applicable to Investment in Road and Equipment	Expenditure applicable to Investment in Road and Equipment	Retirement of Property Credited to Capital Account	Expenditure less Retirements applicable to Investment in Road and Equipment	Expenditure applicable to Investment in Road and Equipment	Retirement of Property Credited to Capital Account	Expenditure less Retirements applicable to Investment in Road and Equipment	
		\$	cts.	\$	cts.	\$	cts.	\$	cts.	\$	cts.
1A	New lines constructed.	6,971,093	03	18,283	44	6,952,809	59	5,280,684	89	8,020,939	92
B	New lines acquired.	201	89			201	89			26,135	75
C	Line diversions.	1,683	30	140,445	43	138,762	13	23,107	49		
D	Double tracking.	76,245	76	5,674	23	70,571	53	8,897	14	33,858	49
2A	New rails and fastenings.	3,145,204	49	2,677,163	03	468,041	46	5,013,809	89	5,151,367	83
B	Relaying rails (S/H Rail).	1,526,584	00	1,202,581	41	324,002	59	1,382,633	54	1,250,887	93
C	Tie plates.	787,264	91	49,774	77	737,490	14	1,471,765	97	1,770,205	49
D	Rail anchors.	223,138	03	17,801	28	205,336	75	286,052	67	285,881	67
3	Ties.	121,446	29			121,446	29				
4A	Rock ballast.	210,763	97	51,502	61	159,261	36	145,839	00	459,861	77
B	Gravel ballast.	258,602	69	1,280	00	257,322	69	282,682	55	398,761	49
C	Slag ballast.							3,750	00	3,000	00
5A	Widening cuts and fills.	58,972	56			58,972	56	83,874	32	117,477	66
B	Sealing rock cuts.	23,107	06			23,107	06	24,633	83	19,708	05
6A	Rip rap.	44,053	33	1,220	00	42,833	33	47,728	19	23,374	03
B	Retaining wall and crib work.	22,437	29	2,270	00	20,167	29	45,433	67	86,856	09
7A	Ditching.	40,974	78	400	00	40,574	78	28,892	54	27,025	17
B	Tile drainage.	165,700	91	40,531	04	125,169	87	165,324	72	134,528	90
C	Sewers.	12,288	71			12,288	71	8,179	41	5,514	00
8A	Highway and farm crossings.	21,219	52	4,734	00	16,485	58	37,461	27	14,006	64
B	Roadway and paving.	34,710	66	500	00	34,210	66	35,952	72	20,252	85
9A	Right of way fence.	52,972	90	4,962	74	48,010	16	66,986	75	44,967	75
B	Snow fence.	29,884	79			29,884	79	15,352	34	44,342	59
10A	Large freight terminals.	948,212	21	212,196	93	736,015	28	275,494	01	20,052	32
B	Large passenger terminals.	12,299	00			12,299	00	842,845	79	1,306,407	35
11A	Other yard tracks and public business sidings.	603,216	47	125,716	64	477,499	83	793,031	22	2,276,418	76
B	Passing tracks.	148,822	43	10,421	49	138,400	94	1,731,893	38	77,593	51
C	Private sidings.	407,609	31	233,537	29	174,072	02	238,552	82	240,949	15
12	Roadway—Miscellaneous.	214,478	88	210,570	48	3,907	80	7,127	72	27,349	27
13A	New steel bridges or the replacement with concrete or steel bridges.	1,224,912	03	330,984	72	893,927	31	139,729	46	307,655	56
B	Culverts, new or the replacement thereof.	373,876	91	138,382	21	235,494	70	167,728	26	270,995	24
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.	185,816	49	44,672	48	141,144	01	165,149	35	250,719	18
D	Replacing timber bridges and trestles with culvert and fill.	715,767	26	227,397	28	488,369	98	327,552	06	404,028	38
								404,749	73	1,082,756	01
								425,190	16	207,616	55
								612,366	62	184,116	07
								1,130,016	20	134,063	76
								841,559	02	303,902	63
								800,774	03	98,613	69
										537,656	39



E	Replacing timber bridges and trestles with permanent concrete or steel bridges.....	102,685 85	35,106 03	67,579 82	528,713 40	117,089 35	411,624 05	200,292 03	50,192 29	150,099 74
14	Tunnels.....	40,403 67	1,000 00	39,403 67	31,756 68	3,288 00	28,468 68	60,052 16	11,152 61	48,899 55
15A	Protection or elimination of grade crossings by diversion.....	10,594 72	200 00	10,394 72	70,513 67	148 00	70,365 67	73,308 01	230 00	73,078 01
B	Protection or elimination of grade crossings by subways or overhead bridges.....	900,743 03	8,999 37	891,743 66	3,953,062 55	29,209 60	3,923,852 95	2,114,500 40	553,217 98	1,561,282 12
C	Replacement of present overhead bridges.....	35,104 19	15,185 00	19,929 19	11,893 16	.....	11,893 16	49,904 22	14,613 70	35,290 52
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	39,760 07	8,540 20	31,219 87	71,986 24	18,423 32	53,562 92	69,850 07	19,639 27	50,210 80
16A	Other stations and shelters.....	122,564 24	82,284 42	40,279 82	211,978 64	93,826 80	118,151 84	336,154 07	107,179 95	288,974 12
B	Freight sheds.....	146,026 77	41,413 27	104,613 50	75,798 31	5,234 81	70,563 50	205,718 50	18,779 11	186,939 39
C	Stock pens.....	53,055 84	16,770 25	36,285 59	36,673 44	5,282 00	31,391 44	21,886 74	5,494 98	15,791 76
D	Station dwellings and bunk houses.....	47,204 07	15,884 31	31,319 76	128,568 78	31,667 98	96,870 80	133,546 40	38,324 20	145,222 20
E	Platforms.....	42,995 81	5,356 29	37,639 52	66,286 01	10,675 46	55,610 55	92,565 13	10,474 52	82,190 61
F	Buildings (miscellaneous).....	95,813 88	79,009 79	16,804 09	131,408 01	113,476 07	17,931 94	138,195 62	41,892 55	96,303 07
G	Express facilities on railway.....	1,189 87	.....	1,189 87	5,247 22	300 00	4,947 22	3,338 98	15 00	3,323 98
H	Track scales.....	47,551 45	13,036 81	34,514 64	43,727 72	33,854 18	9,873 54	7,043 65	200 00	6,843 65
17	Water supplies.....	209,654 68	99,752 26	109,902 42	364,460 22	206,928 83	157,531 34	305,784 85	133,834 05	171,950 80
18	Fuel stations.....	78,848 45	69,432 93	10,415 52	171,964 70	69,964 93	101,999 77	204,967 61	33,280 53	171,687 08
19A	Turntables.....	40,805 34	46,660 33	5,854 99	58,578 82	17,597 00	30,981 82	227,890 49	58,777 36	169,113 13
B	Ash pits.....	10,186 92	.....	10,186 92	11,496 13	300 00	11,196 13	11,402 72	4,970 00	6,432 72
C	Other engine houses, machine shops, etc.....	163,706 10	72,036 32	91,669 78	141,896 17	73,580 64	68,315 53	228,555 74	119,397 49	109,458 25
20	Other locomotive and car shop buildings.....	151,555 41	28,561 58	122,993 83	136,147 71	87,068 08	49,079 63	369,502 80	149,107 89	220,394 91
21	Docks and wharves and dredging for same.....	42,602 62	37,935 51	4,667 11	169,696 40	26,072 30	143,624 10	196,720 42	49,756 18	146,964 24
22	Grain elevators.....	30,301 14	468 00	29,833 14	3,432 24	1,174,888 23	1,175,320 47	86,735 16	13,540 30	73,194 86
23	Automatic block signals and interlocking plants.....	195,739 27	25,151 00	170,588 27	66,362 78	-14,025 54	52,337 24	290,208 86	8,730 93	281,477 93
	Carried forward.....	21,273,564 71	6,445,287 17	14,818,277 54	27,213,441 09	9,328,242 71	17,885,198 38	31,029,557 52	8,760,028 81	22,269,528 71

## SELECT STANDING COMMITTEE

# CANADIAN NATIONAL RAILWAY SYSTEM

EXPENDITURE ON ROAD AND EQUIPMENT, 1925-1926-1927, PER ENGINEERING CLASSIFICATION

Group No.	Description	Year 1925			Year 1926			Year 1927		
		Expenditure applicable to Investment in Road and Equipment \$ cts.	Retirement of Property Credited to Capital Account \$ cts.	Expenditure less Retirements applicable to Investment in Road and Equipment \$ cts.	Expenditure applicable to Investment in Road and Equipment \$ cts.	Retirement of Property Credited to Capital Account \$ cts.	Expenditure less Retirements applicable to Investment in Road and Equipment \$ cts.	Expenditure applicable to Investment in Road and Equipment \$ cts.	Retirement of Property Credited to Capital Account \$ cts.	Expenditure less Retirements applicable to Investment in Road and Equipment \$ cts.
	Brought forward.....	21,273,564 71	6,455,287 17	14,818,277 54	27,213,441 09	9,328,242 71	17,885,198 38	31,029,557 52	8,760,028 81	22,269,528 71
24A1	Locomotives purchased or built.....	302,619 05		302,619 05	383,395 59		383,395 59	6,576,381 27		6,576,381 27
A2	Locomotives, additions and betterments.....	254,162 34		254,162 34	537,037 31		537,037 31	746,559 67		746,559 67
A3	Locomotives, rebuilds.....	123,531 37		75,011 73						
A4	Locomotives retired.....		1,704,121 72	1,704,121 72		1,105,034 94	1,105,034 94		1,172,489 19	1,172,489 19
B1	Freight cars purchased or built.....	1,426,613 75		1,426,613 75	528,992 46		528,992 46	8,403,868 66		8,403,868 66
B2	Freight cars, additions and betterments.....	488,053 00		488,053 00	1,073,219 44		1,073,219 44	527,261 87		527,261 87
B3	Freight cars, conversions and rebuilds.....	381,360 85		298,809 92	9,541 95	142,054 66	132,512 71	2,523 62	298,136 27	298,136 27
B4	Freight cars retired.....		1,725,551 57	1,725,551 57		1,864,858 10	1,864,858 10		1,897,175 88	1,897,175 88
C1	Passenger cars purchased or built.....	1,386,164 02		1,386,164 02	829,964 71		829,964 71	5,551,083 89		5,551,083 89
C2	Passenger cars, additions and betterments.....	210,082 92		210,082 92	256,890 18		256,890 18	343,289 89		343,289 89
C3	Passenger cars, conversions and rebuilds.....		160,506 41	160,506 41	6,136 46	144,720 61	138,584 15	640 02	82,650 21	82,010 19
C4	Passenger cars retired.....		72,542 16	72,542 16		162,977 08	162,977 08		115,747 19	115,747 19
D1	Motor Equipment of Cars purchased or built.....	523,223 84		523,223 84	22,236 58		22,236 58	239,869 53		239,869 53
D2	Motor Equipment of Cars, additions and betterments.....									
D3	Motor Equipment of Cars, conversions and rebuilds.....									
D4	Motor Equipment of Cars retired.....					7,500 00	7,500 00			
E1	Floating Equipment purchased or built.....									
E2	Floating Equipment, additions and betterments.....				1,225,997 97		1,225,997 97	538,030 31		538,030 31
E3	Floating Equipment retired.....	4,132 54		4,132 54	228 57		228 57	6,672 95		6,672 95
F1	Work Equipment purchased or built.....	97,104 83		97,104 83	519,428 95		519,428 95	35,068 56		35,068 56
F2	Work Equipment, additions and betterments.....	27,924 25		27,924 25	19,057 25		19,057 25	784,438 86		784,438 86
F3	Work equipment, conversions and rebuilds.....	143,217 20		94,340 37	267,687 10	23,310 66	244,376 44	25,351 27	5,245 66	25,351 27
F4	Work Equipment retired.....		345,944 06	345,944 06		160,674 90	160,674 90	410,927 87	155,915 12	405,682 21
G1	Miscellaneous Equipment purchased or built.....	16,709 54		16,709 54	41,700 44		41,700 44	34,481 15		34,481 15
G2	Miscellaneous Equipment, additions and betterments.....									
G3	Miscellaneous Equipment retired.....	2,000 00		2,000 00						
25	Shop machinery and tools.....	246,748 38	5,680 36	5,680 36		7,293 65	7,293 65		4,869 01	4,869 01
26A	Railway telephone dispatch lines and equipment.....	60,238 30	124,404 34	122,344 04	473,711 32	245,670 69	228,040 63	565,088 30	287,583 16	277,505 14
B	Purchase of land.....	2,018 29		60,238 30	13,742 34		13,742 34	5,353 93		5,353 93
27	Electrifying lines.....	500,943 96	123,271 93	377,672 03	83,846 30	800 00	83,046 30	32,713 23	44 00	32,669 23
28	Co-ordination of facilities.....	1,358,702 29	785,942 22	572,760 07	1,278,192 90	570,001 03	708,191 87	1,353,263 02	186,241 31	1,167,021 71



30	Surveys—right-of-way and others.....	25,501 80	.....	25,501 80	32,631 01	.....	32,631 01	8,949 81	.....	8,949 81
32	General miscellaneous.....	371,644 22	.....	256,778 36	284,534 38	.....	93,996 90	438,971 23	.....	113,862 65
32A	Fire protection.....	.....	114,865 86	.....	.....	190,537 48	.....	23,974 91	.....	23,624 91
40	Stores Department buildings and equipment.....	195,402 98	.....	191,196 92	122,069 29	.....	95,103 68	180,267 16	.....	172,443 16
42	Traffic Department.....	6,903 12	.....	6,487 48	33,706 61	.....	26,965 61	8,215 47	.....	7,559 62
43	Legal and Tax Department.....	74,319 92	.....	64,720 52	134,052 71	.....	134,052 71	173,012 64	.....	171,282 85
44	Colonization Department.....	2,818 01	.....	1,625 31	1,563 19	.....	1,563 19	1,729 79	.....	1,481 18
	Total Classified Expenditures.....	30,006,483 93	12,313,479 00	17,693,004 93	37,819,665 24	16,362,676 43	21,456,988 81	59,241,844 02	14,046,917 51	45,194,926 51
	Expenditures under Suspense Appropriations.....	264,111 05	7,115 14	256,995 91	587,778 34	11,568 13	576,210 21	384,771 11	65,297 50	319,473 61
	Expenditures by Separately Operated Properties	1,044,708 54	22,481 77	1,067,190 31	1,802,712 13	51,619 41	1,751,092 72	1,587,168 29	921 00	1,588,089 29
	Transfers between Balance Sheet accounts not	.....	.....	.....	.....	.....	.....	.....	.....	.....
	applicable to the year's expenditures.....	621,734 98	.....	621,734 98	4,283,617 08	1,522,346 85	5,805,963 93	5,137,702 96	2,321,788 63	2,815,914 33
	Hudson Bay Railway.....	.....	.....	.....	14,944,515 21	.....	14,944,515 21	.....	.....	.....
	Central Vermont Railway.....	.....	.....	.....	28,544,006 12	660,207 74	29,204,213 86	22,844,278 58	712 185 54	23 556,463 92
		30,693,568 54	12,298,112 37	18,395,456 17	48,350,472 86	17,264,866 82	31,085,606 04	42,737,665 78	17,014,673 18	25,722,992 60

RECONCILIATION

	\$	cts.
Balance Sheet at December 31st, 1924.....	1,842,933,391	72
Change during year 1925.....	18,395,456	17
Change during year 1926.....	31,085,606	04
Change during year 1927.....	25,722,992	60
Balance Sheet at December 31st, 1927.....	1,918,137,446	53

Mr. HENRY: Mr. Harris also asked for a statement of the amount of money included in items Nos. 2 and 3, page 21 of the annual report under the caption "Roadway," which related to land and grading during 1927, charged to this account, in respect to Toronto and the township of Scarborough, but not included in the terminals. I would like to read a memorandum in regard to that.

The question asked by Mr. Harris on April 18th (page 81) was for the amount of money included in the item of \$2,673,627.79 "Land for Transportation Purposes" of the Expenditures, less Retirements, during the year 1927, applicable to Investment in Road and Equipment, spent in Toronto and in the Township of Scarborough, exclusive of the Toronto Terminals Railway, and, secondly, the same information with regard to "Grading"—\$5,215,023.57;

The answer to the first question is: Cr. \$12,057.15;

The answer to the second question is: \$272,153.75.

It may be explained in this connection that the large area of land purchased by the National Railways at Scarborough, embracing 294 acres, cost \$455,653.91 and was purchased for the purpose of supplying material which could be used for fill along the waterfront, partly on account of the Canadian National Railways and partly on account of the Canadian Pacific Railway and partly on account of the Toronto Terminals Railway. An arrangement has been made with these parties for the supply of this filling. After the filling has been taken out, it is the intention that a new yard shall be constructed at Scarborough for the purpose of handling more economically the business into and out of Toronto. The cost of this land is included in Unadjusted Debits pending the change in the yard at Danforth. Up to the present time there has been supplied from this area 653,297 cubic yards.

Mr. HARRIS: I might say that Scarborough Township will greatly appreciate the information that a yard is to be established there.

Mr. HENRY: Mr. Stevens asked for an explanation regarding the operation of the equipment trust and the manner in which it is handled in the accounts. I would like to file that statement, and also a statement to the extent in which equipment trust financing is done in the United States and also a statement showing what some of the representative railways of the United States do.

#### MEMORANDUM RE EQUIPMENT TRUSTS AND THE RELATION OF SAME TO THE ACCOUNTING PRACTICE WITH RESPECT TO THE EQUIPMENT RETIREMENTS AND THE CHARGES TO OPERATING EXPENSES

In Canada and the United States it has been the practice for many years to issue Equipment Trust Securities for the purpose of securing funds to purchase a large proportion of the rolling stock used in railway operation.

There are several types of equipment trusts, but the most widely used is based upon what is known as the "Philadelphia Plan." Under this plan there are three parties involved, a railway company, a rolling stock company, and a trustee. The railway company agrees to lease the equipment from the rolling stock company and to pay in the form of rental an amount equal to the interest upon the securities to be issued and sufficient to retire the serial payments on account of principal annually or semi-annually, as the case may be, until all the securities have been paid off. The rolling stock company pledges the lease with the Trustee, who, in turn, issues equipment trust notes to the public. The railway company does not obtain title to the equipment until the equipment trust notes have been fully retired. The period of the equipment trust is usually from ten to fifteen years.



The accounting procedure required by the Interstate Commerce Commission regarding acquisition and retirement of equipment is as follows:

When equipment trust notes or other securities are issued to provide funds for the purchase of new equipment, the par value of these securities is added to the funded debt of the system. All equipment acquired is charged to investment account at cost. When any portion of the funded debt is discharged, naturally the liability account is reduced to that extent. As and when equipment is retired from service, the investment account is reduced by taking therefrom the value at which such equipment was carried in such account, and the resultant loss, less any salvage, is charged to operating expenses. From this it will be seen that, having discharged the liability incurred for the purchase of equipment, and having retired from service the equipment itself, the capital investment account and the capital liability account have both been purged of the amounts previously included in respect to such equipment, and the loss due to the wearing out of the equipment in service has been met by charges against operating account.

That is the practice on our Canadian Lines. The practice on the Lines in United States is similar except that the loss is taken care of by depreciation accruals as required by the Interstate Commerce Commission.

A question regarding accounting procedure was raised at this Committee last year. Inquiry was then addressed to the Director of Accounting of the Interstate Commerce Commission as to the correct method of accounting for these certificates and reply was received indicating that the method adopted by us was in strict conformity with the requirements of the Commission.

OTTAWA, April 24, 1928.

Statement of Capitalization of Class I Roads of the United States,  
December 31, 1926

Stocks—

Common.. . . . .	\$ 5,935,372,148	
Preferred.. . . . .	1,749,641,579	\$ 7,685,013,727

Funded Debt—

Mortgage Bonds.. . . . .	\$ 7,744,026,315	
Collateral Trust Bonds.. . .	1,005,865,130	
Income Bonds.. . . . .	280,892,876	
Miscellaneous Obligations .	472,124,476	
Equipment Obligations.. . .	1,068,604,082	\$10,571,512,879

Total Railway Capital Outstanding..	\$18,256,526,606
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NEW YORK CENTRAL (EXCEPT MICHIGAN CENTRAL)

New York Central & Hudson River	Equipment Trust of 1912.....	Annual.....	Oct. 1, 1912	15	4½	500,000	500,000
Boston and Albany	Equipment Trust of 1917.....	"	Jan. 1, 1918	14	4½	1,117,000	1,117,000
N.Y.C.R.R.	Equipment Trust of 1913.....	"	Jan. 1, 1913	15	4½	1,600,000	1,600,000
New York Central Lines	Equipment Trust of 1913.....	"	Jan. 1, 1913	15	6	8,304,300	8,304,300
New York " "	Equipment Trust Notes No. 43.....	"	Jan. 15, 1920	15	6	922,700	922,700
New York Central Lines	Equipment Trust of 1920.....	"	April 15, 1920	15	7	1,153,167	10,378,506
"	Equipment Trust Gold Certificates.....	Philadelphia.	June 1, 1922	15	5	1,843,000	20,273,000
"	Equipment Trust of 1922.....	"	Sept. 1, 1922	15	4½	844,000	9,284,000
"	Equipment Trust of 1923.....	"	June 1, 1923	15	5	1,156,000	13,872,000
"	Equipment Trust of 1924.....	"	June 1, 1924	15	5	1,670,000	21,710,000
"	"	"	Sept. 15, 1924	15	4½	1,397,000	18,161,000
"	Equipment Trust of 1925.....	"	May 15, 1925	15	4½	1,446,800	21,000,000
						13,649,667	130,667,806

NEW YORK, NEW HAVEN & HARTFORD RAILROAD

N.Y., N.H. & H. Equipment Trust, Series A.....	Annual.....	April 1, 1924	15	5	166,000	498,000
"	"	May 15, 1918	10	6	342,000	513,000
"	Equipment Trust Gold, Series EE, Class A.....	Oct. 1, 1920	15	7	131,000	1,184,000
"	Government Equipment Trust Gold No. 53.....	Jan. 15, 1920	15	6	295,900	2,663,100
"	Equipment Trust Gold Series EE, Class B.....	Oct. 1, 1920	7	6	100,000	100,000
"	Equipment Trust Gold Certificate of 1925.....	Jan. 1, 1925	15	5	243,000	3,280,000
"	"	Dec. 1, 1926	15	4½	333,000	4,995,000
					1,610,900	13,233,100

ILLINOIS CENTRAL R.R. CO.

I. Cent. R.R. Co. Equipment Trust Gold Certificates Series E.....	Semi-Annual.....	Nov. 1, 1917	10	5	550,000	550,000
"	"	Oct. 1, 1920	15	7	737,000	6,633,000
"	"	Feb. 1, 1921	15	6½	324,000	3,240,000
"	"	Feb. 1, 1922	15	5½	217,000	2,387,000
"	"	Oct. 1, 1922	15	4½	443,000	4,873,000
"	"	May 1, 1923	15	5	1,273,000	14,003,000
"	"	Aug. 1, 1924	15	4½	863,000	11,219,000
"	"	Oct. 1, 1925	15	4½	616,000	8,624,000
"	"	May 1, 1926	15	4½	386,000	5,018,000
"	"	Oct. 1, 1926	15	4½	311,000	4,665,000
"	Government Equipment Trust No. 33 Gold Notes.....	Jan. 15, 1920	15	6	647,100	5,823,900
"	The Pullman Company Equipment Contract.....	Jan. 17, 1922	10	6	174,850	1,075,149
					6,541,950	68,111,049

Mr. HENRY: I think that clears up all the questions.

Sir HENRY THORNTON: The questions have all now been answered, Mr. Chairman. We will be glad to follow your wishes as to further procedure.

The CHAIRMAN: I think the answers to these questions clear up what we have in the annual report of the Canadian National system. Is it your pleasure to adopt the report?

Mr. HARRIS: We did not have the pleasure of having Sir Henry Thornton with us in the room for the last two meetings—

The CHAIRMAN: We certainly missed him.

Mr. HARRIS: —and I wonder if he would care to make any observation with regard to the situation we find with reference to the investment in road and equipment. This item is mounting quite rapidly, and the present system of keeping records is not such as to lend itself to arriving at any determination of the amount of sinking fund which might be later reflected in the balance sheet or the operating account. I would like to ask if there is any way we can get an idea of the procedure upon the exhaustion of these different elements in the operating account.

Sir HENRY THORNTON: I think, Mr. Harris, if my recollection of what transpired is correct, the point you have raised was dealt with very exhaustively at the recent meeting. I can only say that the practice of the Canadian National Railways with respect to matters of that sort is, in general, the accepted practice on most railways and is in accord with any legal obligations with which we may comply.

As far as additions to capital are concerned I shall have to content myself with the statement that the railway is a constantly growing thing. There are constant annual necessitous expenditures on capital account, some of which are in themselves unremunerative but necessitous. For example, there is the Toronto viaduct proposition which involves a large expenditure of money but which will not reflect itself in our net earnings sufficiently, probably, to pay an interest on that investment. New passenger stations are necessitous in most cases, and generally unremunerative. When I say “unremunerative” I mean looking at it purely from the point of view of what returns there are. There are constantly necessitous branch lines which must be built throughout the country, sometimes to open territory for prospective business, often to relieve a serious burden which rests upon our farming population but generally we endeavour—and when I say “we” I mean the officers of the company, the directors and myself—to limit these capital expenditures to things which, having regard for all of the circumstances, we regard as necessitous, but there will be a constant steady increase in the capital of the railway just as there has been in the capital account of every railway. I do not think I can add anything of advantage to what has already been said.

Mr. HARRIS: That is all, Mr. Chairman.

Mr. BELL (St. Antoine): Are you prepared to make a statement regarding the terminal facilities at Montreal?

Sir HENRY THORNTON: No, that is a matter which is in the course of consideration. I do not think there is anything which I could usefully say upon the subject, except that we have been studying the matter for the last four years with increasing intensity, and we have developed a plan which we believe is the best solution of the situation, but if anyone else can show us a better plan we will be only too happy to adopt any suggestion that is better than our own. The matter is now under consideration by the interested parties and there is nothing I can say upon the subject at this time.



Mr. BELL (St. Antoine): There is no solution in sight at the present time? I am speaking particularly with regard to the level crossings as you enter Bonaventure station, and the station itself.

Sir HENRY THORNTON: The improvement of that position is a part of the general Montreal scheme, and presumably whatever scheme is finally adopted will effectively deal with that problem. No scheme, however, has as yet been adopted. We have merely suggested a scheme which we think is a good one, and it is under consideration by the interested parties, but if anyone has a better scheme, we are quite open to discuss it.

Mr. BELL (St. Antoine): The reason I ask that is because of a number of complaints. It is generally understood that there is a scheme under way, and, as you know, there are a great number of complaints regarding the level crossings, and what I am trying to ascertain is if there is any idea on the part of the railway officials as to when there will be some remedy granted covering that particular factor?

Sir HENRY THORNTON: We are as anxious to have that situation corrected as anyone, and we are doing what we can to expedite the solution, and I think I may say that the solution is proceeding as rapidly as such a problem can proceed. It is not being delayed by anyone, nor by any interest.

Sir EUGENE Fiset: Does the same thing apply to the Quebec terminal?

Sir HENRY THORNTON: Yes. We are also considering a solution of that problem.

Sir EUGENE Fiset: So this will be a capital charge and you will have to ask parliament to vote whatever money may be required.

Sir HENRY THORNTON: Any additions to the property which involve a capital expenditure is necessarily subject to the approval of parliament, whether it be at Quebec or Saskatoon.

Mr. CANTLEY: What success have you had with suburban car traffic, with either the Deisel or gasoline car? Are you extending that service?

Sir HENRY THORNTON: Yes, we have certain suburban branch line services which, under steam operation, have been conducted at a loss. We cast about to try and find some cheaper but equally efficient method of operation. In the course of our investigation we developed the Deisel electric unit, which we believe is the solution of the branch line problem or the solution of problems which involve the provision of steam service at a loss. We have built a number of these units and are putting them on wherever circumstances justify them. They have been highly satisfactory. (To Mr. Henry). Do you happen to have with you any figures on the subject?

Mr. HENRY: I believe we have.

Sir HENRY THORNTON: The upshot of the thing is that where we have put them on we have changed the loss to a profit. Where we have these services—and by “these services” I mean the Deisel electric services—the gross revenue is, in round figures, \$450,000; the expenses, \$238,000, so that there is a profit on these services of \$211,500 for the year 1927.

Mr. CANTLEY: What localities have you in mind?

Sir HENRY THORNTON: They are scattered pretty much all over Canada. These same services, if they had been operated by steam, would have shown a loss.

Mr. CANTLEY: Do you contemplate larger units?

Sir HENRY THORNTON: We have under contemplation a larger unit which, based upon the results of our experiences here with the smaller units, we think will be extremely interesting, but we have not gone far enough with them and made no field experiments, so we cannot give you any data about them.

Mr. CANTLEY: I should think it was very promising. The only objection I have heard is that the units in some places are too small to take care of the traffic, for instance, from Stellarton to Pictou.

Sir HENRY THORNTON: That may be, Colonel, and I think you are right in your general statement that it is a very measurable advancement in solving the problem of suburban branch line traffic.

Mr. CANTLEY: The chief objection seems to be that there is not sufficient accommodation.

Sir HENRY THORNTON: If there is not sufficient accommodation that is easily solved by adding another unit or a trailer. Your criticism is not with respect to the principle involved?

Mr. CANTLEY: No. I think the principle is good and should be extended. I think larger units would be even more economical.

Sir HENRY THORNTON: I think probably you are right. I think that as time rolls on it will be found that the development of this Deisel electric unit will be found to be more or less of a milestone in transportation history.

Mr. CANTLEY: Progress, of course, will only be made, as is made in everything, by trial and error, and I should think it will go on to larger units.

Sir HENRY THORNTON: I think probably that is a true statement.

Mr. CANTLEY: Can you let me know the number of wooden freight cars you still have in service, both flat and box cars?

Sir HENRY THORNTON: It should be comparatively easy to get that. Supposing we take a note of your question and hand in the answer a little later.

Mr. CANTLEY: Will you give me the ages of those cars and the number you have of them?

Sir HENRY THORNTON: Wooden cars?

Mr. CANTLEY: Yes.

Sir HENRY THORNTON: We can furnish that probably to-morrow.

Mr. CANTLEY: I hope they will soon be off the road. They are a menace to transportation.

Sir HENRY THORNTON: I should like to see them off the road myself, but they are an heritage and something which will have to be eliminated by the natural process of elimination.

Mr. CANTLEY: They are eliminating themselves pretty rapidly.

Sir HENRY THORNTON: Probably they are.

Mr. CANTLEY: When do you propose taking up the Merchant Marine?

The CHAIRMAN: Right after we got through with this. Sir Henry, will you read the statement you have prepared?

Sir HENRY THORNTON: Mr. Chairman, the members of the Committee have before them copies of the Ninth Annual Report of the Canadian Government Merchant Marine. That develops the following points: the accounts which have been certified by the auditors, show an operating loss of \$720,735.40 in 1927 as compared with operating losses of \$96,159.91 in 1926, \$948,053.34 in 1925, \$1,440,880.21 in 1924.

The report also says: "The less favourable showing in 1927 was largely attributable to conditions under which certain of the services had to be operated, there being a shortage of cargo tonnage, also additional competition which resulted in reduced freight rates. It is, however, gratifying to be able to report that prospects for the future are brighter owing to decreased competition and the stabilization of freight rates."

It was the additional competition which forced lower freight rates, which is largely responsible for the showing this year. Last year when we discussed the



Canadian Government Merchant Marine's affairs it was asked that the press should be excluded from the Committee. I shall have to ask that the same procedure be followed this year, if I am to be in a position to give to this Committee all of the information which it should have. That will necessarily explain certain things in relation to competition, giving certain figures and certain facts which will be of distinct advantage to competitors and which in the interests of the Government Merchant Marine should not be made public. I can say nothing more in the way of information except what has been given you.

Hon. Mr. STEVENS: Mr. Chairman, I was not here last year when the press was excluded and I do not know the nature of the information or anything about it. I am not offering this in the way of an objection to Sir Henry's request, but there must be a good deal of discussion that could be carried on with the press present.

The CHAIRMAN: When we get through with the discussion—

Mr. DUFF: There may be some competitors in a small way here now.

Sir HENRY THORNTON: We can discuss the general figures.

Hon. Mr. STEVENS: The last thing I would want to suggest would be to embarrass the Directors of the company.

Sir HENRY THORNTON: It does not embarrass us in the least. I am speaking from the point of view of the welfare of the Government Merchant Marine. Obviously I have no desire for anything but the fullest publicity, but there are certain facts in connection with the operation of the Government Merchant Marine which will be distinctly advantageous to our competitors if known. They are perfectly legitimate things which should be known to and discussed by this Committee, but not put in the hands of competing interests.

Hon. Mr. STEVENS: That is quite understood and appreciated, but in our discussion of the National railway affairs I think Sir Henry and his associates have been exceptionally frank in their statements, and I do not see that any particular harm has come from it.

Sir HENRY THORNTON: There is a difference between the operations of the Government Merchant Marine and the railways. There is no fact, practically speaking, in connection with the railways which everybody from the north to the south pole may not know. The competitive position with respect to the Canadian Government Merchant Marine on the high seas is quite a different matter—

Mr. McLEAN (Melfort): Of course the railway can not go out of its own territory to pick up freight, whereas a steamer can. I can understand the force of Sir Henry's remarks.

Sir HENRY THORNTON: I would like to tell everybody everything I know.

Mr. McLEAN (Melfort): If you did, you would not last long where you are now.

Mr. CANTLEY: It would certainly be very interesting.

Sir HENRY THORNTON: If you like, we will go ahead and discuss the various accounts and if I find I am getting on thin ice, I will say so.

Hon. Mr. STEVENS: I think that will be quite proper, because I cannot conceive of everything being so exceedingly secret.

Hon. Mr. DUNNING: That has been the practice in regard to matters which, in the judgment of the management, should not be answered even in Parliament itself. Possibly we can proceed and see how far we can get. Personally I am anxious that the Committee should have a full disclosure of the whole operation. I know enough, however, regarding this matter from Sir Henry to

know that there are many phases which would be decidedly against the interests of the Merchant Marine, were they given general publicity.

Hon. Mr. STEVENS: I would suggest that Sir Henry intimate very promptly when we reach them.

Mr. DUFF: Let us go ahead until we reach them, and not cross the bridge until we come to it.

Sir HENRY THORNTON: I take it you want to start first with the operating account, and the first things under "Operating Revenue" are the gross receipts which this year amounted to \$10,234,560.77 as compared with approximately \$11,000,000 a year ago. I suppose I might as well read this.

Mr. DOHERTY: Except that which relates to the individual services.

Sir HENRY THORNTON: From the Annual Report in your possession, you will observe that the operating loss of \$720,735.40 in 1927 compares with operating losses as follows for the previous years:—

\$ 90,159 91 in 1926,  
948,053 34 in 1925,  
1,440,880 21 in 1924.

The Annual Report also contains other information regarding the operations of the Canadian Government Merchant Marine, and the figures speak for themselves, the outstanding features being as follows:—

The fleet consists of forty-six vessels with total deadweight tonnage of 312,090.

The gross revenue for 1927 was \$10,233,964.43 or \$755,472.99 (6.87 per cent) less than in 1926.

The vessel operating expenses in 1927 were \$10,235,706.77, which was 1.54 per cent or \$159,739.55 less than in 1926.

The operating ratio for 1927 was 107.04 as compared with 100.82 in 1926.

The book deficit for the year amounts to \$7,086,939.59, which is more by \$399,718.52 than the deficit in 1926.

The following figures show tonnages handled by the entire fleet during the year; they include freight in transit on December 31:—

	Tons	Value
Export Traffic.. . . . .	707,305	\$ 77,232,705 20
Import Traffic.. . . . .	401,025	65,564,848 53
Intercoastal Traffic. . . . .	119,385	15,108,814 48
	<hr/> 1,227,715	<hr/> \$157,906,368 21

Close co-operation still continues between the marine organization and the Canadian National Railways with mutually satisfactory results to both. During 1927 the steamers delivered to the Canadian National Railways inward freight totalling 60,847 tons with rail earnings of \$438,576 while on 150,863 tons of export traffic received from said railways the rail earnings were \$971,129, the two items making a total of \$1,409,705.

As a result of our operating services to Australia, New Zealand and Newfoundland, subsidies to other companies, aggregating \$156,500 are no longer paid by the Dominion Government.

During the year an additional \$338,000 was added to the Insurance Reserve. The Reserve Surplus at December 31, 1927, is \$2,179,123.31, which amount, together with \$22,119.52 to meet losses sustained but unpaid, brings the total reserve to \$2,201,242.83.



That of course only relates to the marine service; that represents the marine service insurance.

There were no serious losses except on two different occasions in the case of one vessel.

The vessels of the fleet were maintained in good condition, warranting their retaining highest classification.

Pending the construction of the new vessels for the British West Indies Services, under the Canada-West Indies Trade Agreement of 1925, temporary passenger and freight services are being maintained by this Company. The new vessels will be owned by the Canadian National (West Indies) Steamships Limited or subsidiaries, but their operation will be under the same management as that of this Company.

As from March 15th the title "Canadian National Steamships" will be used in connection with the operations of vessels controlled or operated in conjunction with the Canadian National Railways and engaged in ocean and coastwise services."

Mr. HENRY (Reading):

#### Assets

##### Investments—

Vessels at December 31, 1926 . . . . .	\$64,483,821 41
Less: Net deductions during year . . . . .	2,113,137 49
	<hr/> \$62,370,683 92
Plant and Equipment . . . . .	44,822 69
Office Furniture and Fixtures . . . . .	53,064 92
Other . . . . .	500 00
	<hr/> \$62,469,071 53

Mr. DUFF: Before we go any further this value of the vessels at \$62,470,000—is that the actual value of the ships or the book value?

Mr. HENRY: The original value.

Mr. DUFF: The book value?

Mr. HENRY: Yes.

Mr. JELLIFF: What is included in the net deductions during the year of \$2,000,000?

Mr. HENRY: During the year the SS. *Canadian Pathfinder* note cancelled \$1,545,080.71; *Canadian Skirmisher* note cancelled \$1,564,472.53. The total of these two items is \$3,109,553.24. The additions during the year, *Canadian Pathfinder* \$271,813.40, *Canadian Skirmisher* \$270,736.17, a total of \$542,549.57.

Hon. Mr. DUNNING: Explain the note "cancellation," Mr. Henry.

Mr. HENRY: Each one of these boats is an individual company and notes were given to the Dominion government in respect to them. When a boat is sold or disposed of in some other way, or wrecked, the note is cancelled and the amount of that note is taken out of the investment account.

Mr. DUFF: It is not paid; it is cancelled.

Hon. Mr. DUNNING: The government just takes that loss.

Mr. BELL (Deputy Minister): But the government takes the cash which is paid if the boat is sold?

Mr. JELLIFF: Did I understand you to say that one or two boats were sold?

Mr. HENRY: No; they were reconstructed and put into the West Indies service.

Sir HENRY THORNTON: They were reconstructed for passenger service to stand in the breach until the new boats are in service.

Mr. DUFF: Do you carry any insurance on the boats?

Sir HENRY THORNTON: Yes.

Mr. DUFF: What about the insurance? Would that not go to the government?

Sir HENRY THORNTON: They would collect the insurance in the event of casualty, a wreck or an accident.

Mr. DUFF: What becomes of that money?

Sir HENRY THORNTON: It is used to repair the boat or toward the payments on a new boat, or, I suppose, in the event of a boat disappearing altogether, it would go to the government.

Mr. DUFF: In the event of a total loss that money goes to the government to reduce the note?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: The \$62,000,000 is the book value of the present boats, not the original book value of the entire fleet.

Mr. HENRY: It is the original book value of all of the boats which are intact at the present time.

Hon. Mr. DUNNING: Can you give us the book value of the entire fleet before you sold or wrecked any of them?

Mr. HENRY: \$79,511,660.

Hon. Mr. DUNNING: Sir Henry, in your discussion on insurance, the Committee is of course clear that we carry our own insurance; it is not outside insurance.

Mr. DUFF: You have an insurance account of your own?

Hon. Mr. DUNNING: Yes.

Sir HENRY THORNTON: If it has not already come up in the railway accounts, the Committee should understand that the railway since the spring of 1923 has been doing all of its own insuring, which includes the insurance cost of the Canadian Government Merchant Marine. The insurance reserve for the whole of the railways and the Canadian Government Merchant Marine now stands approximately at \$10,000,000, which is invested in Canadian government bonds.

Mr. DUFF: There are two accounts?

Sir HENRY THORNTON: Of that amount a certain portion is assigned to the Canadian Government Merchant Marine. The two are under the same administration, but a certain amount which I mentioned a moment ago is ear-marked for Canadian Government Merchant Marine insurance purposes.

Mr. HENRY: It is on page 2, \$2,201,000.

Mr. DUFF: I notice in your operating account you do not charge any insurance premiums to that account.

Sir HENRY THORNTON: There must be an item there; it is charged.

Hon. Mr. DUNNING: "Taxes and insurance."

The CHAIRMAN: The fifth item on page 10.

Mr. DUFF: Oh, \$13,000 is not the insurance for 46 hulls.

Mr. BELL (Deputy Minister): We pay exactly the same as to an insurance company. That goes into the insurance reserve and is invested in government bonds.

Mr. DUFF: Included in the expenses of the closed voyages.



Sir HENRY THORNTON: It would be an expense charge.

Mr. HENRY: There is included in the 1927 account \$792,442. That is included in the item \$10,235,706 representing the operating expenses, "Vessels, Closed Voyages."

### Assets

#### Current:

Cash in Banks.. . . . .	\$ 471,573 63	
Accounts Receivable.. . . . .	173,630 14	
Due by Agents.. . . . .	413,396 39	
Mortgages Receivable.. . . . .	90,000 00	
Advances to Captains, Crews and Agents	65,851 14	
Inventories of Stores and Supplies.. . .	182,301 72	
	<hr/>	\$ 1,396,653 02
Insurance Fund.....		2,665,744 03
		<hr/>
		\$66,531,568 58

### Liabilities

#### Capital Stock

Authorized 10,000 shares of \$100 each	\$1,000,000 00	
Issued: 6,609 shares of \$100 each....	\$ 660,900 00	
LESS: Cancelled or held in Treasury in respect of Vessels disposed of—2,000 shares.. . . .	200,000 00	
	<hr/>	\$ 460,900 00

#### Dominion of Canada Account

Notes payable and Advances due Dominion Government (Secured by Mortgages on Vessels).....	\$61,830,742 86	
Other Advances by Dominion Government.. . . . .	8,964,158 67	
Interest Accrued to 31st December, 1927	25,590,676 62	
	<hr/>	\$90,385,578 15
Balances Outstanding on Vessels Sold	90,000 00	
	<hr/>	\$96,475,578 15
Advances by Canadian National Railways.. . . . .	565,760 57	
Accounts Payable.. . . . .	879,774 62	
Balances of Uncompleted Voyages.. . . . .	90,006 18	
Reserve for Depreciation—Vessels.. . . . .	16,924,198 75	
Insurance Reserve.. . . . .	2,201,242 83	
Profit and Loss Account—Deficit.. . . . . (Red Ink) ..	51,065,892 52	
	<hr/>	\$66,531,568 58
Contingent Liabilities—None ascertained.. . . . .		\$66,531,568 58

Mr. BELL (St. Antoine): Is that \$51,000,000 the total deficit since the commencement of the Merchant Marine?

Hon. Mr. DUNNING: That is an operating loss.

Mr. COOPER: No sir, that includes depreciation and everything.

Hon. Mr. DUNNING: It does not include capital loss on vessels sold which has been absorbed by the government. This \$51,000,000 means all the other items but that?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Including interest to the government?

Hon. Mr. DUNNING: Yes, it includes that.

Mr. COOPER: Yes, sir.

Mr. BELL (St. Antoine): Since what year?

Mr. HENRY: Since the day the first boat was put into operation—1919.

Sir HENRY THORNTON: About nine years.

Mr. HENRY: The accumulative operating deficit is \$9,599,000; the balance is depreciation and interest to December 31, 1927. The interest included there is \$25,590,000; depreciation \$16,924,000.

Mr. BELL (St. Antoine): When you say "Operating Deficit"—

Mr. HENRY: Before interest and depreciation.

Mr. McLEAN (Melfort): That item of \$16,000,000 for depreciation is merely a bookkeeping item?

Mr. HENRY: Yes.

Sir EUGENE Fiset: Are steps being taken to try and eliminate altogether this deficit, as you are doing for the Canadian National?

Sir HENRY THORNTON: That is one of the things we are supposed to be paid for and—with becoming modesty—we are making every conceivable effort to reduce the deficit and keep the Canadian Government Merchant Marine on a sound basis.

Hon. Mr. DUNNING: I thing, Sir Eugene, you mean to ask if the Government is going to forgive them the interest.

Sir EUGENE Fiset: Exactly.

Sir HENRY THORNTON: I do not know.

Mr. DUFF: I think it would be as well to reduce the assets to the actual value of the ships. I do not see the sense of charging interest on \$62,000,000.

Sir HENRY THORNTON: It is entirely a paper transaction.

Mr. DUFF: Yes, but it does not do any good. We may as well face the thing and get it over with, if we are going to operate.

Mr. CANTLEY: Have you had any appraisal made of the value of the tonnage at the end of the year?

Sir HENRY THORNTON: The value of the fleet? Yes, we can tell you that. We can give you an estimate of it if you like to have it.

Hon. Mr. CHAPLIN: Is not the amount of interest that is charged absolutely nothing more than a delusion? Why should it be kept on?

Sir HENRY THORNTON: It is a delusion in the sense it is not paid.

Hon. Mr. CHAPLIN: And it never will be paid. Why not get the ships down to their real value, as Mr. Duff suggested?

Mr. McLEAN (Melfort): It would not help us any to cancel that interest. This is giving us a truer picture.

Mr. CANTLEY: But we are treating as an asset the value of the ships there.

Sir HENRY THORNTON: It is about \$50 a ton.

Mr. DUFF: \$15,600,000 are round figures.

Sir HENRY THORNTON: That is right.

Mr. BELL (St. Antoine): In your annual report you say, "Resumed normal trading is looked for early in 1928, but the situation is not free from anxiety or difficulty". May I ask this general question: What makes you think that the Canadian Government Merchant Marine will be a success any



more than that of Australia or the United States, with their experiences regarding their merchant marine? Is not the Government Merchant Marine regarded simply as a feeder for the Canadian National Railways?

Sir HENRY THORNTON: That involves answers to several questions. In the first place, with respect to normal trading we anticipate that certain competitive features will disappear during this year which operated to produce unremunerative rates last year. That we can tell you more about later. As far as the Government Merchant Marine is concerned, in its service to the Dominion of Canada, it furnishes services to certain trades and certain traffics, more particularly on the Pacific coast, which have been of considerable benefit to those who produce in Canada. It is a certain assurance against combinations and extortionate rates from private companies; it is a system which is constantly exploring and investigating new trade routes for the purpose of encouraging Canadian trade abroad. If I were asked to-day, should we as a nation embark upon the construction of a merchant marine fleet, I would say: "No, it is unwise to do it." But we have this fleet; it has been constructed at considerable expense, and we are using it as an instrument to promote Canadian trade, and I think it has fulfilled a distinctly useful purpose in that direction.

Mr. BELL: Would you say more so than the Australian Merchant Marine did for Australia?

Sir HENRY THORNTON: I would say so. I should think so unquestionably. As far as the experiment of the United States is concerned, that is not quite on all-fours with our position in Canada. To begin with, the United States embarked upon a very ambitious merchant marine proposition, which, of course, was the out-growth of the war. It came into severe competition with powerful and long-established ocean interests. Because of its very size, it was difficult to operate economically, and difficult to give all of its operations that close scrutiny which is necessary. Our position here is relatively different. We have a smaller fleet; we are able to give that fleet a more intensive administration, and I think, if the shippers on the Pacific coast particularly were consulted, they would say that the Government Marine had been very useful to them.

Hon. Mr. DUNNING: The United States Government Marine was not linked up with the railways in any sense either.

Sir HENRY THORNTON: No, they had no land transportation proposition involved.

Mr. McLEAN (Melfort): I presume, Sir Henry, you are running your fleet just the same as it would be run under private ownership, or by the owners of a long-established company?

Sir HENRY THORNTON: If you mean by that, are we operating our fleet in accordance with the best state of the art, I should say we are.

Mr. McLEAN: That is what I mean.

Sir HENRY THORNTON: I think our crews and our captains, and our technique, if we may call it such, will compare favourably with those of any other water transportation company.

Mr. McLEAN: Was the American Marine run in that fashion?

Sir HENRY THORNTON: I do not know enough about it to express an opinion.

Mr. DUFF: Sir Henry, your freight and passenger rates are no lower than those of any other company, are they?

Sir HENRY THORNTON: Well, they are no lower than they have to be. You must remember that water competition, or water transport is not subject to the same rules as land transport. It is a much more open proposition, and we have to meet the rate, whatever it may be, unless it is too outrageously low.

Mr. DUFF: You are not in the North American Conference yet.

Sir HENRY THORNTON: No, we are only listening at the key-hole.

Mr. CANTLEY: Sir Henry, I asked a question which, as far as I can see, has not been answered, and that is whether you have any independent valuation of the vessels. I do not think we have that shown.

Sir HENRY THORNTON: Not of the entire fleet.

Mr. CANTLEY: You have forty-six vessels with a tonnage of 312,900. Deducting a reserve from the total valuation shows the book value of the vessels as about \$145 a ton, which is practically four or five times what they are worth.

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: Now why carry that on? Why not wipe that off and get down to a business proposition?

Sir HENRY THORNTON: I would have no objection to such a proposal.

Mr. CANTLEY: Would it not be an advantage?

Sir HENRY THORNTON: I think it would be an advantage in this way; that we would be on a sound basis; and it would be certainly an incentive to the management, and an encouragement to those who are operating the property to know that they were not up against a thoroughly hopeless proposition.

Mr. CANTLEY: Why not have it done?

Sir HENRY THORNTON: That is for this Committee to recommend if it wishes.

Hon. Mr. STEVENS: There is one feature about it that is wholly unfair to the operating staff; that is to charge the interest, which you do each year, on \$62,000,000, when it is quite clear that it is an impossible task for them to earn such an interest above their operating expenses.

Sir HENRY THORNTON: Quite so.

Hon. Mr. STEVENS: And that goes on accumulating year by year, until now it has reached \$25,590,000. It is not a reasonable charge to make at all.

Mr. CANTLEY: The same thing applies to depreciation.

Hon. Mr. STEVENS: Absolutely; I quite agree with what Colonel Cantley says; that is to cut down the capital value of the ships to present-day values. For instance, if this were a private company, it would have gone into liquidation long ago.

Sir HENRY THORNTON: Oh, yes.

Hon. Mr. DUNNING: It never would have been out of liquidation.

Hon. Mr. STEVENS: No, it would have gone into liquidation long ago, and taken its loss.

Sir HENRY THORNTON: The assets would have been written down to something reasonable.

Hon. Mr. DUNNING: The history of the Government Merchant Marine, however, must not be forgotten. It came into existence as practically a government service.

Hon. Mr. STEVENS: Surely.

Hon. Mr. DUNNING: It was not until the Canadian National Railways took it over that this question could arise at all. That is the State was operating the service directly, and the State naturally wanted to know, or at least I presume Parliament wanted to know, what the exact position was. The Canadian Government Merchant Marine is now really an operating company for the State. The present picture enables the State to see exactly what that has cost the State. If you go writing it down, you do not change the relationship of the account. The State has invested that much money.



Mr. DUFF: They have known that for three or four years.

Hon. Mr. STEVENS: We know that we have lost seventy-five per cent of the valuation of these ships in simply a world-wide reduction in values, entirely aside from depreciation in operation. Just simply that the tonnage to-day is not worth more than a given amount, nor is it likely to rise to any extent; if anything, it is likely to fall.

Hon. Mr. DUNNING: The tonnage never was worth what these ships cost at any time.

Hon. Mr. STEVENS: Possibly. Then, let us face that fact, and reduce that capital cost and then you will at least only charge up in interest about 25 per cent of what you are charging now. That is included, I suppose, in this closed voyage.

Sir HENRY THORNTON: Is your thought to reduce the capital liability to something commensurate with the earning capacity of the proposition?

Hon. Mr. STEVENS: Certainly.

Hon. Mr. DUNNING: There is no interest charge included in the voyage proposition at all. There is no interest charge against the operating account?

Sir HENRY THORNTON: Oh, no.

Hon. Mr. DUNNING: What really interests the staff of this institution is the operating account, into which none of the capital items are charged; and this should be said also, Sir Henry, that the Minister of Finance is taking the loss, the State is taking the loss as the vessels are turned in. That is to say, if one is sold, if the lowest value, the note is cancelled, and the interest is cancelled?

Sir HENRY THORNTON: That is true.

Hon. Mr. DUNNING: The note and interest are cancelled as the vessel ceases its active operation as a unit of the Merchant Marine, so that there has been a progressive wiping out of the capital. What is proposed now is a drastic wiping out of it, and that I am afraid would simply confuse the picture in the eyes of the country. So far as the staff and operating end of the Merchant Marine is concerned, this country, I am sure, would be perfectly happy if they could, as an operating proposition, regardless of interest charges, and other items such as that, come off even or better than even.

Mr. CANTLEY: Mr. Chairman, I do not think it would confuse the country at all. I think it would clear the matter up. The Minister says the interest is not charged against the operating expenses?

Hon. Mr. DUNNING: That is right.

Mr. CANTLEY: I understand the reverse is true, in regard to depreciation.

Hon. Mr. DUNNING: No, there is no decreasing of capital in the operating account.

Mr. DUFF: What you might do is, in your statement of assets and liabilities, to put in an item for depreciation. First, put the total book value, \$64,000,000, and then put an item making the net value the exact value of the ships. That perhaps would satisfy everybody? At the present time, you are asked to show \$62,000,000, and you have only about \$10,000,000.

Mr. McLEAN (Melfort): Are not the costs charged against the repairs?

Sir HENRY THORNTON: The up-keep is charged, yes.

Mr. McLEAN: That straightens out with the depreciation?

Sir HENRY THORNTON: You will find that under Operating Expenses.

Mr. McLEAN: That takes the place of the actual value of the ships now in service?

Sir HENRY THORNTON: No, there is a difference between repairs and depreciation.

Mr. McLEAN: It is a general depreciation. I notice the ships have been kept up to the mark, to justify the higher classification.

Sir HENRY THORNTON: That means the insurance classification.

Hon. Mr. CHAPLIN: There should be a depreciation equal to bringing it down to the selling value, or the plain value of the ships. Now, that could be done without in any sense affecting the general statement.

Hon. Mr. DUNNING: That is sound. As a matter of fact, that is already done for insurance purposes.

Sir HENRY THORNTON: Yes.

Hon. Mr. CHAPLIN: It should be done in the regular account.

Mr. DUFF: That would be very simple. It would mean only one item in your asset.

Hon. Mr. DUNNING: It would not interfere with the general picture at all.

Hon. Mr. CHAPLIN: It means that you are bringing it down to the actual value, and that is the way it should be in my judgment.

Mr. CANTLEY: May I ask what the policy of the management, is in regard to the sale of vessels that it is absolutely impossible to make any money with? You have a total of 46 vessels and twenty of them average under 5,000 tons. Those vessels cannot pay their way in the North Atlantic. It is impossible for them to do it. A vessel of 10,000 may, but the others cannot. What is your policy in regard to getting rid of those vessels?

Sir HENRY THORNTON: I think I am safe in saying that practically all the fleet is to-day in service.

Mr. DOHERTY: With the exception of two steamers.

Sir HENRY THORNTON: Yes. To sell any of the present vessels would mean one of two things: either it would have to be replaced with a new vessel, or a service of some sort would have to be abandoned.

Mr. CANTLEY: You have five of them laid up in Halifax, have you not?

Sir HENRY THORNTON: No, we have all our vessels in service, except two.

Mr. CANTLEY: But your report says, "Except five laid up in Halifax."

Sir HENRY THORNTON: They may have been laid up temporarily. Probably they were laid up temporarily.

Mr. CANTLEY: When they were laid up, they could not make any money for you.

Sir HENRY THORNTON: That may be, but the fact remains that the fleet to-day, substantially speaking, is employed in services.

Mr. CANTLEY: At a loss?

Sir HENRY THORNTON: At a loss, yes.

Mr. CANTLEY: These vessels I refer to are only operated at a loss. That is a statement I make without any fear of contradiction.

Sir HENRY THORNTON: That may be true of the whole fleet, but let me again say that the fleet is to-day employed in services. Now, if any vessels are sold, one of two things must necessarily happen: either a service is withdrawn, or a new vessel must be built to replace a vessel that has been sold.

Mr. CANTLEY: What is the object of keeping up a service that does not pay?

Sir HENRY THORNTON: If this Committee should pass a resolution—?

Mr. CANTLEY: Why keep on a vessel that cannot pay?

Sir HENRY THORNTON: If you want to abandon the Canadian Government Merchant Marine, it is within the province of this Committee to say so. It all depends on what you want to do with this experiment you have got.



Mr. STEWART (Leeds): If some of these services were discontinued would not a demand arise for similar services, with subsidies from the Government?

Sir HENRY THORNTON: Unquestionably, that is probably what would happen, and as we say, we saved about \$160,000 in subsidies last year.

Mr. DUFF: Did you put any steamers on new services this year, or last year?

Sir HENRY THORNTON: I do not think we did. There were no new services, were there, Mr. Doherty?

Mr. DOHERTY: Just the temporary service we had on in the West Indies.

Sir HENRY THORNTON: Nothing but the temporary service between Halifax and the West Indies.

Mr. DUFF: You did have a service to the West Indies, but did you put on a new service to Porto Rico?

Mr. DOHERTY: We had two services within the last two months. We were asked by shippers in Nova Scotia to give them a frequent connection with Porto Rico. We made these two sailings principally for experimental purposes. Up to the moment, they seem to be showing reasonably good results.

Mr. DUFF: I would not think so. They cannot. That is a trade I am in myself. I carry the goods a dollar a cask less than you do, and I say you are losing a lot of money, and you have no business to interfere with private enterprise.

Mr. DOHERTY: We are meeting the requests of the shippers of Nova Scotia.

Mr. DUFF: They could ship by New York or by private vessel to Porto Rico.

Mr. DOHERTY: They prefer this as against shipping by New York, where they must tranship.

Mr. DUFF: That may be right. I am not objecting to the present condition where we have got those ships and must do something with them, but I do not think it is right for you to enter into new services and interfere with private enterprise, especially when you have to carry the goods at a higher rate or make the private interest come down to your rate. I say that is not fair.

Sir EUGENE Fiset: What kind of cargo do you carry?

Mr. DUFF: Salt.

Sir HENRY THORNTON: That has a useful result.

Mr. BELL (St. Antoine): Regarding the use of these vessels in the West Indies trade from Canada; how many new vessels are being built?

Sir HENRY THORNTON: Five.

Mr. BELL: Are each of these being incorporated as a separate company?

Sir HENRY THORNTON: No, that is all in a company known as the Canada-West Indies Company.

Hon. Mr. DUNNING: Incorporated at the last session of Parliament.

Mr. BELL: Will we be able to tell when the next report comes out what it is costing us in the Canadian-West Indies trade?

Sir HENRY THORNTON: You will know about it.

Mr. BELL: Or will that be consolidated with the other services?

Sir HENRY THORNTON: We will be able to tell you exactly what that service is doing from the point of view of revenue, expenses, and anything else that you want to ask us about it.

Mr. BELL: Will that be the same regarding Australia?

Sir HENRY THORNTON: We can tell you anything about any of the different voyages and services which we have to-day.

Mr. BELL: We can get that information?

Sir HENRY THORNTON: We have got it. We propose to give it to you.

Mr. BELL: It is not here?

Sir HENRY THORNTON: No, of course, it is not here. That is the very thing I have been telling you about.

Mr. BELL: We have to ask for it?

Sir HENRY THORNTON: No, no. Later on we will be able to show you what each service does; the number of voyages; the revenue; the expenses, and everything in connection with it, but I would prefer to give that to this Committee in camera.

Mr. BELL: I am sorry.

Sir EUGENE Fiset: Is each ship incorporated as a separate company by itself?

Sir HENRY THORNTON: It is incorporated as a separate company, but the figures we have given you represent the operation of the fleet as a whole.

Hon. Mr. DUNNING: There is one interesting question that Mr. Duff brought up. Did I understand him to say you were able to get a dollar a ton more than he was getting? I think you should be commended for that.

Mr. DUFF: Perhaps I did not fully explain it. Mr. Doherty stated that this service was asked for by some Halifax shippers. These shippers sometimes have small lots shipped via New York. The rate via New York is a little more than the Canadian Government Merchant Marine are getting. That is the reason they are anxious to have it go by the Canadian Government Merchant Marine, but you know how much these boats lose, and they could get it very much cheaper if they would ship larger lots in small schooners.

Hon. Mr. CHAPLIN: They would pay more for the steamer service, naturally, then they would for the sailing service.

Hon. Mr. DUNNING: And getting merely a sailing service?

Mr. DUFF: Yes.

Sir HENRY THORNTON: It all depends on the wind.

Mr. DUFF: Your boats do not steam unless there is a draught, and then they are pretty slow at that.

Hon. Mr. STEVENS: Might I ask Sir Henry an explanation of why the service is taken off from Vancouver to Bristol?

Sir HENRY THORNTON: It was conducted at such a terrible loss that I thought we could not stand it any further. It was an awful proposition.

Hon. Mr. STEVENS: You used to pick up any barley cargoes from the Pacific coast?

Sir HENRY THORNTON: Barley cargoes? I do not know that we did.

Mr. DOHERTY: Not latterly, Mr. Stevens. I think on a few occasions, when first operating, we did.

Hon. Mr. STEVENS: I suppose that is a question that should be left over.

Sir HENRY THORNTON: We thought long and hard about that, Mr. Stevens, and finally concluded that it was such a hopeless proposition that we had better take the vessels off. And also, representations were made at that time and it brought out the fact that there were other private services that could fill the transportation requirements.

Mr. McLEAN (Melfort): If you had been asked if there were not steamship services, and you were anxious to establish one, along these lines, would you be in favour of it?



Sir HENRY THORNTON: I do not think having in view the demands for the expenditure of money in other directions that it would be a wise thing to embark upon an extensive Government Merchant Marine service to-day, assuming that we had nothing at all.

Mr. McLEAN: Quite so. I agree with you, but I want to base a question on that. Now that we have this service, and have the organization and experience, and know just what it is doing for us, and what it is costing us—you can decline to answer this if you wish—do you see anything to prevent developing this service ultimately, at a reasonable rate of speed, into a service comparable in results with the Canadian Pacific Steamship service?

Sir HENRY THORNTON: It is going to be probably a long and up-hill fight, but as the Dominion increases in its commerce, and in its production, I think it is by no means a hopeless proposition.

Mr. McLEAN: Quite so. You see no reason why the Dominion of Canada cannot control a reasonable percentage of its own shipping in that way?

Sir HENRY THORNTON: As long as we have got what we have, I think we should continue to do the best we can with it, and I do not regard it as ultimately a hopeless thing. In fact, I am not so sure to-day, notwithstanding the deficit, I am not so sure to-day but what the expense of the Canadian Government Merchant Marine is contributing materially to the trade of Canada.

Mr. McLEAN: Quite so. You will have to face, as it says here on page 6: after a review of last year's conditions that the full force of such competition has not yet developed. I take it that that means that you will have to look forward to a better service, an increased and more up-to-date service in size and speed.

Sir HENRY THORNTON: Certainly, if we are to hold our place.

Mr. CANTLEY: The worst is yet to come, that is what that means.

Sir HENRY THORNTON: No, I should not say that, Colonel. I do not know whether we should take so pessimistic a view of it. Undoubtedly, one of the disadvantages under which the Canadian National suffers as compared with the Canadian Pacific Railway, is the absence of strong ocean instrument. We suffer from that, week by week, and year by year; it is something we cannot help. We have to do the best we can with it, and we have to meet that with close co-operation with outside steamship companies.

Mr. CANTLEY: But, Sir Henry, at the top of page 6 you say "Our steamers, on account of their size, speed and equipment, are placed at a great disability in competing with other tonnage operating and under construction." That is all quite true?

Sir HENRY THORNTON: Quite true.

Mr. CANTLEY: I think I am justified in saying "the worst is yet to come," and is not that what you do say?

Hon. Mr. DUNNING: That is qualified by service with other lines between Canada, the United Kingdom and the Continent. That is, one particular area is referred to.

Mr. CANTLEY: It is the greatest area you have, and that applies equally to other areas, there is no question about that. I see on page 9 you have, "balance outstanding on vessels sold, \$90,000." How long has that been outstanding there?

Sir HENRY THORNTON: Can you give the details of that, Mr. Cooper?

Mr. COOPER: Do you mean the \$90,000 due in October of 1929?

Mr. CANTLEY: How long has it been outstanding?

Mr. COOPER: About two years. It is not overdue.

Sir HENRY THORNTON: It is part of the arrangement under which that particular vessel was sold?

Mr. COOPER: Yes.

Mr. CANTLEY: It is a pretty long credit. What about the balance?

Mr. COOPER: Thirty-six thousand dollars was due in March, 1928, and was paid. Thirty-six thousand dollars is due in August of 1928.

Mr. CANTLEY: Was that three years ago?

Mr. COOPER: These boats were sold about three years ago, yes.

Mr. MILNE: How many ships have you sold all together??

Sir HENRY THORNTON: That was gone into pretty carefully, as I recall, last year. The figures were furnished in respect to the tonnage. Perhaps you will answer the question, Mr. Doherty, and say how many vessels have been sold.

Mr. DOHERTY: Eighteen vessels.

Mr. DUFF: I thought the total fleet was sixty-three.

Mr. DOHERTY: Sixty-six originally; we have forty-six now operating, plus eighteen sold, that is sixty-four. Two were lost.

Mr. JELLIFF: In regard to the proposal of Colonel Cantley to discontinue those boats of five thousand tons, is there not an indirect advantage accruing to your railway to warrant the retention of those services?

Sir HENRY THORNTON: I would not advocate that. I might answer your question in this way: We would not advocate the sale of these vessels if it meant the abandonment of the service that they are in.

Mr. CANTLEY: No matter what the loss?

Sir HENRY THORNTON: Under the present conditions, the present laws.

Mr. CANTLEY: I venture to say these vessels are losing more money than the total trade you are bringing.

Sir HENRY THORNTON: That can be easily checked, Colonel. Let me say this with respect to this whole Canadian Merchant Marine service: the railway inherited this service; it was given to us. We are doing the best we can with those services under the circumstances that surround them. In some respects which I have already stated, I think they are a useful implement to Canadian manufacturers and traders; but if Parliament in its wisdom would wish to abandon that service, well, that is up to Parliament. We can only do the best we can with what we have been given to work with.

Mr. CANTLEY: But will not Parliament naturally be influenced largely by what this Committee recommends?

Sir HENRY THORNTON: If I may be so presumptuous, I should say that Parliament would listen attentively to any suggestion that this Committee might make. What Parliament would do, I cannot predict.

Hon. Mr. STEVENS: Are some of these less than 5,000-ton vessels used in the Pacific coastwise trade?

Mr. DOHERTY: We have four steamers operating from Vancouver and Californian ports.

Hon. Mr. STEVENS: How is that service?

Mr. DOHERTY: It has done reasonably well up to the present time.

Mr. BELL (St. Antoine): Sir Henry, I notice that you have reduced the number from sixty-six to some forty-six. You spoke about the wisdom of Parliament, but is it not really that Parliament should listen to the management of the Canadian National Railways, who are operating these vessels, as to what they should do with the future of the Canadian Government Merchant Marine? That is why I think this Committee should try to ascertain from you



whether it is your ultimate idea to reduce the number of boats and eventually get rid of the Merchant Marine; and furthermore, is Parliament interfering with you in trade agreements such as with the West Indies, whereby we undertake to add to the Merchant Marine when perhaps it is not wise to do so?

Sir HENRY THORNTON: No.

Hon. Mr. DUNNING: The facts of your statement there are wrong. We do not so undertake. My point is that the statement regarding the West Indies Treaty is not correct, Mr. Bell, that we undertake to add to the Merchant Marine. We did undertake to see to it that a steamship service was provided, and we called for tenders for subsidies in the usual way, and it was not until an examination had been made of what that subsidy meant to this country, and to the West Indies, that it was decided by Parliament that it would be better business to own the boats ourselves. There was a full-fledged debate in Parliament on that point. The West Indies Treaty did not involve capital investment in ships on our part unless we chose to so handle the matter. The subsidy method was the method contemplated by the treaty originally.

Mr. BELL: We are building up the Merchant Marine then, are we not?

Sir HENRY THORNTON: If I may answer the question in this way: the Canada-West Indies Treaty was passed. That having been done, then I think what was done subsequently was wise. I am not discussing the wisdom of the Treaty, but the Treaty carried with it a certain obligation, and the way in which that obligation was fulfilled was a wise method of doing it.

Mr. BELL: Then I return, sir, to what you have said, that that was the wisdom of Parliament. I think possibly the shoe was on the other foot. It should be the wisdom of the transportation advising Parliament.

Sir HENRY THORNTON: I could not advise Parliament with respect to what trade treaties they make. But, when Parliament makes a treaty involving certain obligations with regard to transportation, and they ask me what I think should be done, then I make my recommendation. I did it that time. I said, "I think the wise thing to do is to build these ships, and operate them ourselves."

Mr. BELL: That does not help very much in getting rid of the Merchant Marine ships you have on hand, if we are to build more. Your idea was to get rid of the ships?

Sir HENRY THORNTON: No; perhaps I did not make myself clear. As far as the officers of the Canadian Government Merchant Marine are concerned, they start with the fact that a trade treaty has been passed which involves certain water services. Now, that is fixed, and cannot be gotten away from. It is done by Parliament. Then, the Government asks me, "What do you recommend in view of the fact that that treaty has been passed?" Well, my recommendation was that we should build and operate the boats ourselves, and I think that is the thing to do. In a sense it may add to the Government Merchant Marine service, but I cannot help that.

Mr. McLEAN: Do you consider that the building of these new vessels for the West Indies' service will enable you to get rid of some of the older and less suitable boats you have now?

Sir HENRY THORNTON: No.

Mr. McLEAN: None at all?

Sir HENRY THORNTON: No.

Mr. McLEAN: What will you do with those you took off the route?

Sir HENRY THORNTON: The total Canada-West Indies' services involved the construction of five new boats, and the reconditioning of two others, did it not?

Mr. DOHERTY: That is right, sir.

Sir HENRY THORNTON: Of two others. Now, that is a unit, and stands apart by itself, but it will not enable us to take off any service.

Mr. McLEAN: I see. It is a new service?

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: There are two vessels, the *Fisher* and *Forester*; you are going to take them off that service, when the new go on?

Sir HENRY THORNTON: What vessels were we going to recondition?

Mr. DOHERTY: It will be the *Fisher* or *Forester* or two other steamers that will be reconditioned. In putting on these three new steamers to the eastern group, that is to Demerara, we will automatically release the two boats that have been substituting, the two passenger boats, and the two freight boats. Just what we will do with those at the time remains to be decided.

Mr. CANTLEY: You are going to displace four of your existing boats?

Sir HENRY THORNTON: Not yet. I do not know.

Mr. DUFF: Under the treaty, have you not to call at Jamaica and other places in the western group?

Sir HENRY THORNTON: It will be a subsidiary service.

Mr. CANTLEY: Turning to page 6, and referring to losses. You say there were not serious losses except on two different occasions. May I ask what that vessel was?

Sir HENRY THORNTON: Will you give that information, Mr. Doherty?

Mr. DOHERTY: The *Canadian Raider* in one instance was in collision at London, in the River Thames.

Mr. CANTLEY: She is now in Hudson bay?

Hon. Mr. DUNNING: Oh, no, Port Burwell.

Mr. DOHERTY: That is right, at Port Burwell.

Mr. DUFF: That is in Hudson bay.

Hon. Mr. DUNNING: I wish the members of this Committee would learn some of the geography of Hudson bay. Port Burwell is only about fifteen hundred miles away from it.

Mr. DUFF: It is in the most important part of it, the Straits.

Hon. Mr. DUNNING (Referring to map): Port Burwell is on the North Atlantic. It is not even on the Hudson straits. It is off the eastern entrance to Hudson straits; on Ungava bay. It is on the way to Hudson bay.

Mr. CANTLEY: She is now in what condition?

Mr. DOHERTY: She was on the ground.

Hon. Mr. STEVENS: Is she a total loss?

Mr. DOHERTY: We do not expect she will be, but that will depend on the report we get.

Mr. CANTLEY: You would hope she was not a total loss?

Hon. Mr. STEVENS: How was she wrecked?

Mr. DOHERTY: She was blown away from her anchorage and blown ashore, and it was because of that accident she had to winter at Port Burwell.

Hon. Mr. DUNNING: There is a full report of that that Mr. Carter tabled the other day respecting the Hudson's Straits work. She dragged her anchor, and drifted ashore, and sprung a plate and got water in her hold, and it was considered wise to leave her there for the winter. That is as I understand it.

Hon. Mr. STEVENS: What time of the year was that?

Hon. Mr. DUNNING: It was late.



Sir HENRY THORNTON: Too late to get out.

Sir EUGENE Fiset: What was the other accident?

Mr. DOHERTY: A collision in the river Thames.

Hon. Mr. DUNNING: The same boat.

Sir EUGENE Fiset: Did you have an accident outside Pointe au Bouleau last year?

Mr. DOHERTY: Yes, we had a collision in the fall there; that is not included under the heading that we call "serious accidents".

Sir HENRY THORNTON: Do you want to go ahead?

Mr. HENRY: Operating revenues, vessels, close voyages, 1927, \$10,234,560, as compared with \$10,955,365.26. Total \$10,223,964 as compared with \$10,089,437.

Hon. Mr. DUNNING: I think we went over that.

Sir HENRY THORNTON: Then I do not think there is anything else now, unless you want to consider, as you did last year, each individual service. We have given you practically all of the figures with respect to the general figures relating to the operation of the Canadian Government Merchant Marine. I think there is nothing left now but to consider, if you wish, each individual service.

Mr. DUFF: These accounts show, due by agents, about \$600,000. Is that freights that were prepaid?

Mr. COOPER: Would you repeat that, please?

Mr. DUFF: Is that freights to be collected at destination and not yet remitted by the agents?

Mr. COOPER: The amount due by agents is the amount outstanding collectable by our agents, and not remitted.

Mr. DUFF: I beg your pardon?

Mr. COOPER: It is the balance due by agents of December 31, 1927. It represents the balance carried by our agencies, not collected, and therefore not remitted.

Mr. DUFF: Freights which were not prepaid?

Mr. COOPER: It may be prepaid too.

Mr. DUFF: But not in your hands?

Mr. COOPER: No.

Sir HENRY THORNTON: That will eventually come into our hands.

Mr. DUFF: Are all your freights prepaid or do they pay at destination?

Mr. COOPER: Both ways; more or less prepaid.

Mr. DUFF: Do you insure your freights?

Mr. DOHERTY: No, we do not.

Mr. COOPER: We insure against damage to freight.

Mr. DOHERTY: Do you mean, Mr. Duff, whether we cover the collected freight charges?

Mr. DUFF: Yes, the collect freight charges.

Mr. DOHERTY: No, we do not.

The CHAIRMAN: Is it the wish of the Committee that we go into each of these?

Several MEMBERS: No.

The CHAIRMAN: I do not think we need to.

Mr. DUFF: I am content.

Hon. Mr. DUNNING: It is entirely up to the Committee. I only say this: that if we are examining the details of this company's business, which would be of great interest to its competitors, we should sit privately; but if the Committee does not desire to investigate the individual vessels and services, that is the only question in which private information is given. It is here if the Committee wants it.

Mr. BELL: I have certain questions to ask regarding the Australian service; and regarding rates. Unfortunately, I was out of the room when the suggestion was made that this be taken up in camera.

Sir HENRY THORNTON: The point is that if we reveal some service here, which is profitable, we will at once direct competition to that service.

Mr. DUFF: Sir Henry, do you not think your competitors know whether your service is profitable or not?

Sir HENRY THORNTON: I do not think so.

The CHAIRMAN: Mr. Bell, you had some questions you wished to ask. I think those questions should be put in camera.

Mr. BELL: Very good, Mr. Chairman.

The CHAIRMAN: Then I ask the reporters and any one else present not a Member of Parliament, or any one not an official of the Canadian National, or the Canadian Government Merchant Marine, to please retire.

The Committee went into camera.

The Committee adjourned.



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Canada, Transport and Shipping  
Standing Committee 1928

SESSION 1928

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HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6—APRIL 25, 1928

WITNESS:

Sir Henry Thornton, President, Canadian National Railways.

Assisted by: Mr. R. A. C. Henry, Director, Bureau of Economics, Mr. S. J. Hungerford, Vice-President; Major G. A. Bell, Director, C. N. Railways, and other officials.



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## MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

WEDNESDAY, April 25, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met for business at 11 o'clock a.m. this day, Mr. Goodison, the Chairman, presiding.

The following Members of the Committee were present:—

*Messieurs:* Bell (St. Antoine), Cantley, Stewart (Leeds), Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, and Power—12.

In attendance: Sir Henry Thornton, president, Mr. Hungerford, Mr. Robb, Major Bell, vice-presidents; Mr. R. A. C. Henry, Mr. Cooper, Mr. Doherty, and numerous other officials of the C. N. Railways and Canadian Government Merchant Marine.

The chairman called the meeting to order and stated that all the members of the Committee present had a copy of the Estimates in their hands, and if agreeable they would turn to page 3, at the item of \$39,000,000.

Sir Henry Thornton proceeded to give the details in connection with this item, assisted by Mr. Henry. Considerable discussion followed.

Sir Henry Thornton filed statement of the Financial and Capital Requirements for the nine months ending December 31, 1927, and the calendar year 1928, to be placed in the record.

General discussion on the hotel situation, with special reference to Halifax and Vancouver. Statement under caption "Halifax Hotel" was re-read by Mr. Henry, for the information of a member of the Committee who had not been present at a previous meeting of the Committee when that matter had been gone over.

Some discussion respecting the terminal situation in Quebec City, and the intentions of the Canadian National Railways in that connection.

Sir Henry Thornton filed statement respecting Wooden Cars, in response to a question previously asked by Col. Cantley; same to be incorporated in the record.

On motion of Sir Eugene Fiset the Annual Report of the Canadian National Railway System for the year ended December 31, 1927, and the Estimates for 1928-29, were adopted.

Some discussion arose as to the Committee's report to the House. After discussion,—

Mr. McLean (Melfort) moved, seconded by Mr. Jenkins:—

That the Chairman submit a draft report to the Committee at their next meeting, for consideration before presentation to the House.

Agreed to.

After discussion it was decided by the Committee that the next meeting would be held on Tuesday, May 1, at 11 o'clock a.m. in Room 429, with the understanding that Sir Henry Thornton and certain of his officials would be present.

Sir Henry Thornton expressed the thanks of his officers and himself to the Committee for the sympathetic consideration they had given the report and the facts presented to them; and also for the many helpful suggestions of the Committee; that it had become a pleasure to come before them each year and discuss the affairs of the railway.

The Committee adjourned.



## MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

WEDNESDAY, April 25, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: If you will come to order we will start on the Estimates. You all have a copy of the Estimates, and if you will turn to page 3 you will see there the item of \$39,000,000.

Sir HENRY THORNTON: Perhaps the best way to proceed would be to give a summary of the financial requirements and resources, applicable thereto, for the year ending December 31, 1928. The particulars are as follows:—Interest on Funded and Other Debts, \$40,564,000—using round figures—Grand Trunk Pacific Guaranteed Interest, \$1,108,000; Dividends on Grand Trunk 4 per cent Guaranteed Stock, \$2,433,000; Sinking Fund Payments, \$1,000,000; Equipment Principal Payments, \$7,841,000; Retirements and Capital Obligations, \$781,000; which makes a total of Financial Requirements of \$53,740,000; less, Resources, excluding Eastern Lines, \$41,815,000; Deficit, Eastern Lines, excluding interest on Halifax and Southwestern Railway First Mortgage Bonds, \$155,645. That item represents \$6,193,000; and adding the \$41,800,000 and the \$6,193,000, there is a total deduction of \$35,622,000, which leaves a net financial requirement of \$18,118,000. To this there is to be added General Additions and Betterments, \$25,685,000; New Equipment Series K, \$1,000,000; Discount on Securities Issued, \$545,000; totalling, \$45,348,000. Less Financial Requirements for Eastern Lines, to be provided for in the Estimates of the Department of Railways and Canals, as follows:—Deficit in Net Income due to the operation of the Maritime Freight Rate Act, 1927, \$1,930,000; Deficit in net income due to causes other than the operation of the Maritime Freight Rate Act, 1927, \$4,118,000. The last two items represent a total of \$6,348,000, which leaves a final total of \$39,000,000.

Mr. JELLIFF: Could you give us an idea of what the \$25,000,000 required for betterments covers?

Hon. Mr. DUNNING: Would it not be better to take each one of these items in its order, Mr. Jelliff? I would just suggest that Mr. Henry give a brief explanation of each of the items read by Sir Henry Thornton. Many of them have been gone over before, but it is just as well to recapitulate each year and see where we are.

Mr. HENRY: The first item is Interest on Funded Debt. For comparative purposes, you will find the Interest on Funded Debt on page 15 of the report, Interest on Funded Debt, \$40,448,274, Item 546.

Mr. JELLIFF: It is a little more this year?

Mr. HENRY: Yes. The second item is Interest on the Grand Trunk Pacific, \$1,108,000.

Hon. Mr. DUNNING: Explain how that arises, Mr. Henry.

Mr. HENRY: That consists of the following items:—4 per cent Grand Trunk Pacific, Lake Superior Branch, First Mortgage Bonds.

Hon. Mr. DUNNING: Guaranteed by the Dominion?

Mr. HENRY: Guaranteed by the Grand Trunk Railway Company of Canada. 4 per cent Grand Trunk Pacific, Prairie Section, A Bonds, and Prairie Section, B Bonds. Those are the amounts due on April 1st and October 1st, 1928, and they total \$1,108,000.

Hon. Mr. DUNNING: Which bonds are those?

Mr. HENRY: Those were the bonds which the Grand Trunk Railway Company of Canada, under the 1903 agreement, were obligated to guarantee, the second mortgage bonds; the Government guaranteed the first mortgage bonds.

Hon. Mr. DUNNING: And, on our becoming the owners of the old Grand Trunk, we inherited their guaranteed obligations?

Mr. HENRY: The third item, amounting to \$2,433,333, represents the guarantee on what was known as the Grand Trunk Guaranteed stock.

Hon. Mr. DUNNING: That is the old Grand Trunk?

Mr. HENRY: The old Grand Trunk Guaranteed Stock, under the arbitration arrangement.

Mr. HARRIS: What item would that be in last year's business?

Sir HENRY THORNTON: You dealt with that at this time last year for last year. That appears again this year, to be dealt with for this year. It is an annually recurrent item.

Mr. HARRIS: Where is it reflected in last year's statement?

Sir HENRY THORNTON: If I remember rightly, we had the same discussion last year with respect to all of these recurrent items. In fact, they have been coming up year after year.

Mr. HENRY: It is the 5th item on page 26 of the Annual Report, Mr. Harris.

Hon. Mr. DUNNING: 4 per cent Perpetual Guaranteed Stock. The same item of Interest.

Sir HENRY THORNTON: Does that answer your question, Mr. Harris?

Mr. HARRIS: Yes.

Mr. HENRY: The next item is Sinking Fund, \$1,012,425.

Hon. Mr. DUNNING: These Sinking Fund payments relate to specific bond issues?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: There is no need to detail them, except to make it clear that there is no sinking fund in connection with every bond issue, but only in respect to certain of them that are still running, of the old corporate obligations.

Mr. HENRY: They are Canadian Northern Guaranteed Debentures, National Transcontinental Branch Lines, and several other issues with sinking fund provisions. The next item is Equipment Principal Payments, \$7,841,000. The Equipment Series G, H and J; the Canadian National Equipment Series F; the old Grand Trunk Railway Company of Canada; Equipment on the Grand Trunk Western Lines; Grand Trunk New England Lines, a small equipment issue there; and Equipment Series A, B, C, D and E, Canadian Northern Railway System. The next item is \$780,000, Retirements, Capital Obligations. This represents the amount required to retire Grand Trunk Junction bonds.

Hon. Mr. DUNNING: There are some other items too?



Mr. HARRIS: I do not understand what he is talking about.

Sir HENRY THORNTON: We are dealing with the items entitled Retirements, Capital Obligations, and Mr. Henry is trying to give you the details of that item of \$781,000, and he got so far as to say that part of it was due to the contemplated retirement of the Grand Trunk Junction Railways bonds.

Mr. HENRY: They appear on Page 27, near the bottom.

Mr. HARRIS: Just read the item.

Hon. Mr. DUNNING: 5 per cent Mortgage Bonds, Grand Trunk Junction.

Mr. HENRY: Due January 1, 1934.

Sir EUGENE Fiset: It is hard for the members of this Committee, not having before us the written explanations, as read by Mr. Henry, to follow these items.

Sir HENRY THORNTON: All of these items are in the Annual Report itself.

Mr. JELLIFF: The amount of those bonds in that item is \$918,960.

Mr. HENRY: Some of them have been retired already. They represent a first mortgage upon what is known as the Grand Trunk Junction Railway, which extends from 49th Street to Elsdon Street, Chicago. The purpose of retiring these bonds is to permit the discharge of the mortgage on certain properties sold years ago to the Santa Fe, and in connection with which the Canadian National Railways will receive \$1,300,000. That discharge cannot be given until these bonds are paid off, so the purpose of discharging this mortgage is to permit that transaction to be completed. The total of the items just mentioned is \$53,740,179. As against that, there are certain resources excluding the Eastern Lines. These resources are estimated at \$41,814,919, and they represent the estimated difference between the revenues and expenses for the coming year. Of those resources, \$6,192,000 represents the estimated resources of the Eastern Lines.

Hon. Mr. DUNNING: Not the resources of the Eastern Lines, but the resources receivable from the Dominion Government with respect to the Eastern Lines?

Mr. HENRY: That is right. Making the net resources for the system, exclusive of the Eastern Lines, \$35,621,919.

Mr. JELLIFF: That item of \$6,192,000 is not included in the \$41,000,000?

Mr. HENRY: That is not included in the \$41,000,000?

Mr. JELLIFF: Then, your resources would be, \$48,000,000?

Mr. HENRY: No, one is a credit and the other is a debit. This leaves the net financial requirements at \$18,118,000. The next item is General Additions and Betterments, amounting to \$25,685,385, which is the net figure. The gross figure is \$28,983,238, and the credit, due to Equipment Retirements, is \$3,297,853.

Sir HENRY THORNTON: This is the point that you raised, Mr. Jelliff?

Mr. HENRY: We have this under two different classifications, the first is General Betterments for the Entire System, \$18,789,910.

Mr. HARRIS: And the figure for last year?

Mr. HENRY: Last year it was \$14,780,566.

Mr. HARRIS: Where is that shown in your statement?

Mr. HENRY: That is shown in last year's budget. That, of course, represented a nine months' figure.

Sir HENRY THORNTON: I will file the statement which is the Financial and Capital Requirements for the Nine Months ending December 31, 1927, and the calendar year 1928.

## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL RAILWAYS

FINANCIAL AND CAPITAL REQUIREMENTS FOR THE NINE MONTHS ENDING DECEMBER 31, 1927  
AND THE CALENDAR YEAR 1928

	Budget 9 Months ending Dec. 31, 1927	Budget Calendar Year 1928	Increase or Decrease
	\$ cts.	\$ cts.	\$ cts.
Interest on Funded and Other Debt....	27,465,489 96	40,564,010 29	13,098,520 33
G.T.P. Guaranteed Interest.....	554,040 00	1,108,080 00	554,040 00
Dividend on G.T.R. 4% Guaranteed Stock.....	2,433 333 33	2,433,333 33	.....
Sinking Fund Payments.....	827,718 39	1,012,425 88	184,707 49
Equipment Principal Payments.....	6,244,000 00	7,841,400 00	1,597,400 00
Retirement of Capital Obligations.....	20,000 00	780,929 72	760,929 72
	37,544,581 68	53,740,179 22	16,195,597 54
Less Resources.....	34,529,000 00		
Resources except Eastern Lines.....	41,814,919 22		
Deficit Eastern Lines except interest Halifax & South Western bonds.....	6,192,999 50	35,621,919 72	1,092,919 72
Net Financial Requirements.....	3,015,581 68	18,118,259 50	15,102,677 82
General Additions and Betterments....	17,834,418 32	25,685,385 00	7,850,966 68
New Equipment Series K.....		1,000,000 00	1,000,000 00
Discount on securities to be issued....	1,650,000 00	545,000 00	1,105,000 00
	22,500,000 00	45,348,644 50	22,848,644 50
Less financial requirements for Eastern Lines to be provided for in Esti- mates of Department of Railways and Canals.....		6,348,644 50	6,348,644 50
Total.....	22,500,000 00	39,000,000 00	16,500,000 00

Hon. Mr. DUNNING: That gives the details of the item asked for by Mr. Jelliff?

Mr. HENRY: The second item under this classification is Co-ordination. This represents the work done at the junction of two railways, such as the Canadian Northern and the Grand Trunk Pacific—\$84,500. The third item is Hotel Department, \$3,652,758.

Mr. BELL (St. Antoine): Is that your estimate of the hotels?

Mr. HENRY: This is the estimated capital expenditure which will be required for the coming year, in connection with hotels.

Mr. BELL (St. Antoine): I believe Sir Henry was going to give us a statement regarding the hotel situation at Halifax.

Sir HENRY THORNTON: On page 11 of the Annual Report, under the caption "Halifax Hotel" will be found a statement that represents the position of the Company with respect to the Halifax Hotel. I assume that this has been read and it need not be read now. It represents the statement that I would make, and to that I do not know that there is anything I can add. I will be glad to answer any questions that may be asked.

Mr. BELL (St. Antoine): I regret that I have not read this statement.

Sir HENRY THORNTON: It might clarify the situation if that statement were read, and I will ask Mr. Henry to read it.

Mr. HENRY: (Reads):

In 1926 a plan, which had been privately promoted for the erection of a modern hotel at Halifax, was presented to the Board of Directors for consideration. The plan was found to be unsatisfactory in its method of finance and was rejected. The need of more modern hotel facilities



at Halifax was, however, apparent to the Board, and it was recognized that, with the establishment in the winter of 1928-1929 of the new and important services of the Canadian National Steamships between Halifax and the West Indies, this need would become still more pressing. Protracted negotiations ensued between Halifax financiers and the National Railways in an effort to arrive at a satisfactory plan whereby such Railways might participate in the promoters' undertaking, although the inclination of the Board was that the National Railways should itself construct and own a hotel at Halifax. After these negotiations had been in progress for some time the Canadian Pacific Railway was invited by the promoters to participate in their enterprise, but no decision was reached by the Board of that Company until September 26, 1927, when it decided to take up \$350,000 of the Preferred Stock in such enterprise. On July 14, 1927—more than two months prior to this action by the Canadian Pacific—Col. J. L. Ralston, Minister of National Defence, had announced that the possibility of the Canadian National Railways participating financially in the building of a hotel by Halifax promoters had been considered by the Cabinet and that approval would not, without the direct authority of Parliament, be forthcoming for the purchase by the National Railways of minority shares in a privately financed hotel.

On July 20, 1927, the National Railways announced that an appropriate amount for the provision of hotel facilities at Halifax would be included in its annual budget to be submitted to Parliament. On September 23, 1927, further representations that the National Railways should purchase preferred shares in the privately promoted Halifax hotel were considered by the Cabinet; and Col. Ralston immediately notified the President of the Hotel Company that the Cabinet had adhered to the decision reached on July 14, and emphasized the announcement of the intention of the National Railways management to include in the 1928 Budget a railway terminal hotel at Halifax. The decision of the Canadian Pacific to take up the preferred stock of the Hotel Company was made by the Executive Committee of that Railway Company three days later.

The site for the new combined station and hotel of the National Railways at Halifax, upon which foundation work is proceeding, is admirably situated to serve the transportation needs of the community, being on the ocean terminals, and immediately adjoining the present station of the National System. Ample land was available without additional cost. The hotel is to have one hundred and sixty rooms with an ultimate capacity of three hundred rooms. Authority is asked in the Railway Estimates for the expenditure of \$1,250,000. The Board believes that it has acted with wisdom and has followed that course which was essential for the protection of the interests of the National Railways.

Mr. BELL (St. Antoine): I presume, as a result of this private hotel going up, there will be two hotels in Halifax?

Sir HENRY THORNTON: Unquestionably that will be the final result.

Mr. BELL (St. Antoine): According to this statement, the Canadian Pacific were asked to come in to the negotiations for the building of a joint hotel with the Canadian National?

Sir HENRY THORNTON: The original proposal was a private hotel, in which it was suggested that the Canadian Pacific should participate, and they did participate, as has been explained in the statement which has just been read.

Mr. CANTLEY: Could you give us the details on this item?

Mr. HENRY: \$1,250,000.



Sir HENRY THORNTON: Perhaps Mr. Bell may have further questions to ask, and I would suggest, if it is agreeable to the Committee, that we finish this item before we proceed to any other.

Mr. McLEAN (Melfort): The \$1,250,000 will build the hotel and furnish it?

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): I was wondering whether there was business for two hotels in Halifax?

Sir HENRY THORNTON: That is a matter of opinion. I might observe for what it is worth, that the capacity of the two hotels under contemplation represents the combined capacity of the present existing hotels in Halifax. Without any reflection whatever upon those hotels, they have not been regarded as adequate, nor of a satisfactory character for the hotel trade in Halifax. In other words, this is a substitution of what might be described as really modern hotel accommodation, in an equal quantity to that which existed before, and which has not generally been regarded as of a modern character. It only represents about three hundred rooms. Opinions differ as to what is going to happen, and I do not know that I can tell you any more than that.

Mr. BELL (St. Antoine): How big is the hotel at St. John, the United Hotel there?

Sir HENRY THORNTON: I think it has about two hundred and eighty rooms.

Sir EUGENE Fiset: This amount of \$1,250,000, for the Halifax Hotel, is included, I suppose, in the general statement of \$39,000,000?

Sir HENRY THORNTON: It is part of the total amount asked for Additions and Betterments. We are now discussing the details of the \$25,000,000.

Mr. BELL (St. Antoine): You were negotiating, at one stage, with the promoters of this private hotel?

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): And the C.P.R. were also asked to come in with the private interests building this hotel?

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): Then it was announced that Colonel Ralston had, after consultation with the Board of Management, decided that you would really cut off these negotiations, and build your own hotel; is that my understanding?

Sir HENRY THORNTON: The original proposal to participate in what is known as the Lord Nelson Hotel, which is the present private hotel, came to us from the promoters of that hotel. We examined the proposal, and rejected it because we were not satisfied with the financing. In saying that, I mean no criticism, but merely that we thought it was not what we would like to see it. While these negotiations were on, and, as far as I can remember, without knowledge to us, the Canadian Pacific Railway were asked to also participate in the Lord Nelson Hotel. The attitude of our officers, and our Board, has always been that we would prefer to own our own hotel at Halifax. In discussing the matter with the Government, there was some consideration on their part, and they finally concluded that they would reject that proposal, in so far as the Government were concerned. This brought our Board back to its original thought, that we should own and control entirely our own hotel at Halifax, having regard to our new West Indies services, and what we regarded as our predominating interests in the city of Halifax.

Mr. BELL (St. Antoine): Could these private interests build the hotel without the co-operation of either of the railway companies?

Sir HENRY THORNTON: They could, if they had cared to do it.

Mr. BELL (St. Antoine): They were planning on getting the co-operation of one of the railways?



Sir HENRY THORNTON: When any enterprise of a hotel character is projected in any city in Canada, there is always the desire to secure the co-operation and the financial assistance of the Canadian National Railway.

Mr. BELL (St. Antoine): This joint hotel proposition was never talked over with the Canadian Pacific?

Sir HENRY THORNTON: I want to be quite careful to answer your question accurately. I think I can answer your question safely by saying "No," although there were certain conversations, with respect to this situation, in which the Canadian Pacific and ourselves discussed the matter, but neither suggestion from either side was satisfactory to the other, and the matter dropped.

Mr. BELL (St. Antoine): I believe there is some mention made of that hotel in the Canadian Pacific report?

Sir HENRY THORNTON: There is mention made.

Hon. Mr. DUNNING: While that report is being found, Mr. Bell, perhaps the Committee would be interested in the position of the Government, and the reason for it. The tentative proposal was the investment of money by the Canadian National in a privately owned enterprise, the amount being \$250,000. The view of the Government was that this might be considered a major item, and as it had not been included in the last budget, and had not been passed upon by Parliament, authority could not properly be given by the Government. It was not of a sufficiently emergent character to justify the Government giving authority, without the consent of Parliament in the manner in which we are now dealing with the estimates of the Canadian National.

Mr. BELL (St. Antoine): The only thing that I am personally interested in is whether there is really room for two big hotels in Halifax.

Sir HENRY THORNTON: That is a matter of opinion, Mr. Bell. We are not interested ourselves in whether the hotels will pay or not; we are interested in whether or not our own hotel will pay. We are not the custodians of the financial affairs of others who may embark upon a competitive enterprise. We believe, having regard to all the circumstances, that the hotel which we propose to build will pay. Opinions differ as to whether the two will pay or not.

Mr. McLEAN (Melfort): What percentage of the passenger traffic into Halifax, overland, is carried by your road?

Mr. WELDON: I think about 90 per cent.

Mr. McLEAN (Melfort): And a large percentage of the traffic by water from overseas is landed near your proposed site?

Sir HENRY THORNTON: Within a relatively few steps. I suppose the average passenger could walk from the Ocean Terminals to the new hotel in five minutes.

Mr. McLEAN (Melfort): And in coming away from Halifax they will have to leave by your station?

Sir HENRY THORNTON: I was speaking of the Ocean terminals. In so far as the land transportation is concerned, it is merely two minutes from the hotel to the station, the two being in the one building.

Mr. McLEAN (Melfort): And the bulk of the overseas passengers leaving Halifax have to leave through your station?

Sir HENRY THORNTON: If they want to get out of town, that is the best way to go.

Mr. POWER: Were the Canadian National Railways at any time, in any way, ever committed to participation in this joint hotel enterprise?

Sir HENRY THORNTON: No.

Mr. BELL (St. Antoine): Could we have that statement read?

Mr. HENRY: This is on page 7 of the Annual Report of the Canadian Pacific Railway for the year ended December 31, 1927. (Reads):

Your Directors, after discussion with the National Railways and upon the strong recommendation of the latter, agreed to subscribe for \$100,000 of the Preferred Stock in the Lord Nelson Hotel at Halifax, Nova Scotia, the National Railways undertaking to recommend the Government's approval of a subscription by that Company of \$350,000 of such stock. This arrangement was not given effect to owing to Government objection, and your Company was pressed to increase its subscription to \$250,000. Your Directors considered that, in view of your ownership of the Dominion Atlantic Railway serving the important tourist centres of the Evangeline country and connecting through the Eastern Steamship Company with the Port of Boston, the local project, which received general support in Halifax, should be assisted to the extent mentioned. The subscription was accompanied by an offer to the National Railways to transfer to that Company or the Government \$250,000 of the Preferred Stock at cost up to July 1st next—in other words, renewing the proposal of the National Company to this Company. The National Railways shortly afterwards announced the construction of an hotel by that Company. Your Directors deplore this duplication as entirely without justification and are continuing negotiations with the National System in the hope that a way may be found of avoiding it.

Mr. BELL (St. Antoine): Are there any other remarks that you have to make, outside of those you have already made, regarding that statement?

Sir HENRY THORNTON: The report reads "after discussion with the National Railways and upon the strong recommendation of the latter." There were verbal discussions between Mr. Beatty and myself with respect to this situation, but no definite decision was reached with respect to the position of the Canadian National Railways. I can only recall, in that connection, Mr. Beatty asking me the question whether I thought a new hotel was needed at Halifax, and whether I thought it would pay. My recollection is that I said it was needed, and I thought it would pay, but that was merely an opinion with respect to the general hotel situation in Halifax.

Sir EUGENE Fiset: But the fact remains that the C.P.R. asked you to subscribe for \$250,000 worth of the preferred stock?

Mr. POWER: The Canadian National asked the C.P.R. according to that statement?

Sir EUGENE Fiset: The C.P.R. had an interest of \$300,000 in that hotel, and they would have had a controlling interest? —

Sir HENRY THORNTON: We did not ask the Canadian Pacific Railway to participate in the hotel, curious as it may seem. No doubt there is a misapprehension, but, with much courtesy, I would say that we did not invite the Canadian Pacific Railway.

Mr. POWER: You did not initiate any negotiations leading to the construction of a hotel jointly by the two roads?

Sir HENRY THORNTON: No.

Mr. POWER: And in so far as that statement seems to insinuate that it is not correct?

Sir HENRY THORNTON: It is inaccurate.

Mr. BELL (St. Antoine): The C.P.R. Directors seem to be under the impression that two hotels will not pay, whereas the view of the management of the Canadian National is that your hotel will pay?



Sir HENRY THORNTON: I can only say that if the Directors of the Canadian Pacific Railway feel that two hotels will not pay, they would have better kept out of the field. However, that is a matter which rests entirely with their own judgment, and I would not presume to express an opinion.

Mr. POWER: You did express an opinion in the report; you said you had acted with wisdom.

Sir HENRY THORNTON: That is with respect to our position. Sometimes essential facts are overlooked, and I thought that further emphasis would do no harm.

Mr. HENRY: The \$3,000,000 is made up as follows: \$2,000,000 for the Chateau Laurier; \$100,000 for the Vancouver Hotel; \$176,000 for the Jasper Lodge; \$49,000 for Minaki Lodge; and \$44,150 for Pictou Lodge.

Mr. McLEAN (Melfort): Is that a new hotel that is being built?

Sir HENRY THORNTON: That is a proposition which we acquired, as I recall it, about two or three years ago. It is on the seashore, not far from Pictou. We took this Lodge over and it has been found to be quite satisfactory from the financial standpoint. We are enlarging the facilities, and improving it.

Mr. McLEAN (Melfort): That is at Pictou, Nova Scotia?

Sir HENRY THORNTON: Yes. There is insufficient sleeping accommodation in the Lodge, and we are adding room, the business having justified it.

Mr. POWER: Have you ever considered constructing a hotel in Quebec?

Sir HENRY THORNTON: Overtures have been made to us with respect to participation in another hotel at Quebec. Those overtures never reached a very tangible proposition, but, broadly speaking, my feeling has been that, with the possible exception of certain seasons of the year, the present Chateau Frontenac is adequately fulfilling the needs of the travelling public at Quebec. Until we have met the more pressing hotel situations elsewhere, such as at Ottawa, we thought that it would be unwise to embark upon anything there.

Mr. POWER: The negotiations you spoke of were with respect to a hotel to be constructed on what is called Montcalm Market, opposite the Auditorium?

Sir HENRY THORNTON: That is right.

Mr. POWER: As a matter of fact, you own property only a few yards from the Chateau Frontenac, which would be an ideal site for the construction of a hotel?

Sir HENRY THORNTON: I cannot answer that off hand. I would accept your statement if you say we do.

Mr. POWER: A number of years ago I think the Grand Trunk purchased some property above the Terrace in line with the Chateau Frontenac, supposedly for the purpose of constructing a hotel. General Fiset tells me that that might have been a personal purchase made by Mr. Hayes.

Sir HENRY THORNTON: The only property we own in the immediate vicinity is the Ticket Office opposite the Frontenac, and that would be insufficient, of course, for a hotel.

Mr. POWER: In the shuffle between the Grand Trunk and the Canadian National Railway, this property may have gone back to the Hayes Estate.

Sir HENRY THORNTON: At the moment, the only property we own in that vicinity is the Ticket Office. The Vancouver Hotel situation is this. Many years ago, when the Canadian Northern built into Vancouver, that railway entered into a contract with the city of Vancouver, which required a number of things. I do not know of anything that was left out of that contract, as far as obligations of the Canadian Northern were concerned. We were confronted

with the execution or fulfilment of our contractual obligations as a result of that contract. Many of the obligations were frankly admitted by the city to be uncalled for and unnecessary. Finally, however, an arrangement was reached with the city as a result of which if we would undertake to build within a relatively short time, a suitable hotel at Vancouver, the other contractual obligations would be waived by the city. We thought it an advantageous arrangement to make, first because we felt the need of a hotel for the Canadian National Railways at Vancouver. And secondly, because by doing so we relieved ourselves of presumably large expenditures which we thought unnecessary. That briefly represents the Vancouver position.

Mr. POWER: I am not referring to hotels now but I have in mind certain contractual obligations on the part of the National Transcontinental Railway—now your railway—towards Quebec, to build terminals and railway stations and all that, which they have not paid much attention to or given much consideration to for the last fifteen years.

Sir HENRY THORNTON: As far as that is concerned, Major, the Canadian National Railways must—and the company wishes to—comply with all of its contractual obligations. The situation with respect to Quebec is both long and complicated.

Mr. POWER: So complicated that we cannot move.

Sir HENRY THORNTON: If this Committee would like to go into it, I am quite willing to do so, and I can assure you I am glad the opportunity is presented to make this statement that however little the people of Quebec think is being done, we are dissatisfied with the terminal situation in Quebec, we are examining with a view to remedying it and we propose to do so just as quickly as we possibly can. It requires no urging on us to improve our terminal situation in Quebec which we do not regard at present as satisfactory.

Mr. POWER: Perhaps this is not the time to discuss it but I have a few questions to ask, with the permission of the Chairman.

The CHAIRMAN: Yes.

Mr. POWER: You have a contract at the present time with the Canadian Pacific Railway for the use of the Canadian Pacific Station.

Sir HENRY THORNTON: Yes.

Mr. POWER: Would it be possible to tell me when that expires?

Sir HENRY THORNTON: I will ask Mr. Hungerford, who is more familiar with the details of that than I am, and can give you the dates and particulars which perhaps I cannot, to answer that question. Will you please, Mr. Hungerford?

Mr. HUNGERFORD: In 1915, I think, an agreement was made between the National Transcontinental and the Canadian Pacific Railway, by which the National Transcontinental secured a fifty per cent interest in what is known as the Palais Station terminal, and that agreement provided for the use of those facilities by all railways that were owned or controlled by the Government, or in the future might be owned or controlled by the Government. So for all practical purposes the Canadian National owns a fifty per cent interest. We pay fifty per cent of the interest and have equal rights.

Mr. POWER: You pay fifty per cent of the maintenance, the C.P.R. own the building, and they let you in on condition that you pay to maintain it.

Mr. HUNGERFORD: We pay fifty per cent of the interest on the investment, and we pay a wheelage proportion of the upkeep. That is in proportion to the number of cars.

Mr. POWER: So it is really a lease or rental?

Mr. HUNGERFORD: It is equivalent to half ownership.



Mr. POWER: Equivalent to half ownership because you pay half the interest?

Mr. HUNGERFORD: Yes.

Mr. POWER: That is a new way of acquiring property, to my mind. And you pay on a wheelage basis for all the cars which enter the station.

Mr. HUNGERFORD: Exactly on the same basis as the C.P.R. are charged too.

Mr. POWER: When does this agreement expire?

Mr. HUNGERFORD: The agreement was drawn for 99 years. That was subject to legislative approval.

Mr. POWER: Has it ever been approved?

Mr. HUNGERFORD: I think not.

Mr. POWER: Are you bound to continue to use these railway terminals for 99 years?

Mr. HUNGERFORD: I think we would have to ask the lawyers that question. I do not know.

Hon. Mr. DUNNING: You are a lawyer yourself, Major Power.

Mr. POWER: I have never heard of an agreement like that in my life.

Sir HENRY THORNTON: It is a common agreement in railway practice.

Mr. POWER: I have never heard of acquiring property in that fashion. You could pay for 99 years and the property would still be that of the C.P.R.

Mr. HUNGERFORD: Quite true.

Sir HENRY THORNTON: I think technically Mr. Power is right, in that we acquire certain rights for the use of that station under certain terms. Those terms are the payment of fifty per cent of the capital charges; the division of maintenance on the basis of use. That agreement continues for 99 years and we think has not yet received legislative approval but we are not certain.

Hon. Mr. DUNNING: It has not received legislative approval.

Sir HENRY THORNTON: Technically speaking we enjoy the use of that station under this arrangement with the C.P.R. At the expiration of the 99 years the property would not be ours.

Mr. HUNGERFORD: There is an important phase of the matter which has not been mentioned, and that is that a considerable proportion of the real estate involved in the joint terminals belongs to the Canadian National Railways, and under the terms of the general agreement that is leased to the Canadian Pacific. So a considerable amount of the land actually belongs to the Canadian National Railways.

Mr. POWER: That is the land surrounding it, but not the land on which the station is built or on which the tracks are laid.

Mr. HUNGERFORD: Yes, there is a lot of property included in the joint area, and leased by the Canadian National Railways or its predecessors to the Canadian Pacific under the general provisions of the agreement.

Mr. POWER: Is it the intention of the National Railways to submit this agreement for legislative approval at any time?

Mr. HUNGERFORD: I do not know that.

Sir HENRY THORNTON: That is a new question. I do not know. It seems to have proceeded very satisfactorily without formal baptism. Whether the child should be presented for baptism or not I would not like to say.

Mr. POWER: Is that an insinuation that the child is more or less illegitimate?

Sir HENRY THORNTON: Well at least it has no parents.

Hon. Mr. DUNNING: It was an arrangement made by Mr. Gutelius I think. It never was submitted for approval.

Sir EUGENE Fiset: Usually these 99 year leases are confirmed by Order in Council.

Hon. Mr. DUNNING: I do not think there was any confirmation of it at all. As I have said, it was made by Mr. Gutelius.

Sir EUGENE Fiset: It does not need special legislation. It needs simply an Order in Council.

Hon. Mr. DUNNING: I think possibly that is so, but it has not been submitted for approval, at least I have no knowledge of it. It seems to work well without it.

Sir HENRY THORNTON: In putting together these properties a good many queer things were done years ago, and little by little we come across things that ought to have been done differently and which may require legislative approval, and as fast as we get hold of them we try to straighten them out. In the older days, there was a good deal of laxity, and by that I do not mean criticism that the former owners of the various properties were not as precise in their various transactions as we find it necessary to be to-day.

Mr. POWER: You know, Sir Henry, that at the time this contract was entered into by the National Railways with the Canadian Pacific Railway, there was existing a contract with the city of Quebec, whereby the Canadian National was pledged to build a large station on another site altogether, and had actually received from the city of Quebec property worth anything from two to five million dollars which it still keeps.

MAJOR BELL (Deputy Minister of Railways): That was an agreement between the Transcontinental Commissioners and the city of Quebec; not the present management.

Mr. POWER: In the same way probably in 1915 it was not the present management.

MAJOR BELL: It was with the Transcontinental Commissioners and the city of Quebec. It was not at that time under Government management. That is, the Transcontinental was not. Mr. Gutelius for instance was the man in charge.

Mr. POWER: The property involved though came into the possession of the Canadian National Railways.

MAJOR BELL: Oh, yes.

Mr. POWER: You got the property whatever else was done.

MAJOR BELL: When it was transferred from the Transcontinental Commissioners to the management of the Intercolonial Railway then that agreement was entered into by Mr. Gutelius, with the Canadian Pacific Railway. Mr. Gutelius at that time representing the Government Railways.

Sir EUGENE Fiset: The title is now vested in the Canadian National Railways.

MAJOR BELL: No, it is vested in the Government.

Hon. Mr. DUNNING: The Government has the lands.

Mr. HUNGERFORD: My understanding is that the present agreement is enforceable for a period of 21 years, and subject to legislative approval would continue for 99 years.

Sir EUGENE Fiset: It is exactly the same as the ordinary leases passed by the department in Ottawa. An Order in Council for the 99 year lease does; and notwithstanding the fact that the agreement was for 99 years, as it has not been confirmed by Order in Council, 21 years is the legal period that applies.



Mr. POWER: So we have to wait willy nilly whether the traffic increases or not for another 20 years or another 7 or 8 years before we get better terminal facilities in Quebec?

Sir HENRY THORNTON: I would say that would be an unduly pessimistic view, Major.

Mr. POWER: I think I am justified in pessimism when I reflect on the past history of this transaction.

Sir HENRY THORNTON: It is a complicated thing and we have been trying to get at the legal aspect of it. And every time I get a legal opinion I know less about it than I did before, and probably others have had the same experience.

Mr. POWER: That is perhaps a suggestion that you might get a better legal staff.

Sir HENRY THORNTON: Well I can think of one member of the Bar who would be a valuable member of our staff.

Mr. POWER: That offer might be considered.

Sir HENRY THORNTON: Now we are really getting on. Then I might suggest perhaps that it might be allowed to stand meantime and that Mr. Power settle this privately.

Mr. POWER: The latter part of our discussion might be settled privately.

A short time ago, Sir Henry, you said you were not satisfied or that you were dissatisfied with the terminal facilities at Quebec?

Sir HENRY THORNTON: Yes.

Mr. POWER: Did you refer to this agreement?

Sir HENRY THORNTON: I am speaking generally and that is part of the situation.

Mr. POWER: Could you tell me, for my information, what else is unsatisfactory?

Sir HENRY THORNTON: In Quebec?

Mr. POWER: Yes.

Sir HENRY THORNTON: No, I do not know that I can. I do not quite know where you are headed.

Mr. POWER: If I knew what was unsatisfactory, I might urge on the Canadian National Railways to remedy the situation.

Sir EUGENE Fiset: They may be dissatisfied with the representation here.

Mr. POWER: They might, but he does not vote.

Sir HENRY THORNTON: What is that? No, if I voted, I would probably be one of your most ardent supporters.

Mr. POWER: I do not think that is a fair question to ask, Sir Henry; it involves a lot.

Sir HENRY THORNTON: It involves a terrible lot.

Mr. POWER: I will drop it

Hon. Mr. DUNNING: There are many such situations from one end of Canada to the other, and old ones come to life again every once in a while, that we did not know about before.

Mr. POWER: But you are really giving it your attention?

Sir HENRY THORNTON: Oh yes, I assure you of that.

Mr. McLEAN (Melfort): Just what is the need for a hotel in Vancouver at the present time, Sir Henry?

Sir HENRY THORNTON: With much courtesy and with no desire to cast any reflection upon anyone, the only hotel in Vancouver to-day of large size, which is adequate to cope with the traffic needs of the community, is the Vancouver Hotel, which is owned by the Canadian Pacific Railway Company.

Mr. McLEAN (Melfort): Would not the "Georgia" come into that class?

Sir HENRY THORNTON: The "Georgia" was built rather recently. It is relatively small and hardly affects the competitive situation. We have felt for some time that we were losing traffic because the only really large hotel, as I describe it, a hotel, adequate to care for the travelling needs of the public, was the hotel that was owned by our principal competitor, and quite naturally they use that facility to the utmost to secure and keep traffic, and with respect to that I have no criticism whatever; but the passenger business in and out of Vancouver, particularly in the summer, is increasing with rapidity and we felt that quite apart from any other considerations the Canadian National Railways should have a first class hotel of its own in the city of Vancouver.

Mr. McLEAN: Have you any reason to suppose that the C.P.R. hotel is a profitable institution?

Sir HENRY THORNTON: I have no information with respect to what that hotel does. It enjoys a large business, it is in an important city, and certainly would seem to me to present a fertile hotel field.

Mr. McLEAN: If that hotel is not profitable at the high rates they charge and secure, there would not be very much show for a new hotel paying its way.

Sir HENRY THORNTON: I do not know whether the hotel is profitable or not. I can express no opinion.

Mr. McLEAN: But I say if it is not profitable, in view of the high rates they are getting and the fact that it is alone, you would not have much chance of making a hotel pay?

Sir HENRY THORNTON: You cannot consider the hotel proposition in Vancouver separate and apart from the traffic situation. A hotel is very often not only for the purpose of providing accommodation to travellers, but it is also an important implement in securing and retaining traffic.

Mr. McLEAN (Melfort): Why so. Have you connections with important passenger carrying ocean transportation systems in that city?

Sir HENRY THORNTON: We enjoy friendly relations with most of the trans-oceanic lines running into Vancouver. We have no alliances or things of that sort, outside of the coastwise service.

Mr. McLEAN: Is it the fact that the C.P.R. lines carry most of the passengers on the Pacific?

Sir HENRY THORNTON: Yes.

Mr. McLEAN: Could you depend on getting passengers from even the small balance of ships that run with passengers?

Sir HENRY THORNTON: I think we would have an equal chance at least.

Mr. McLEAN: It is not a very bright looking prospect, is it?

Sir HENRY THORNTON: Yes, I think it is certainly a satisfactory prospect. The situation is simply this: that if we wish to retain our passenger prestige on the Pacific Coast, we have got to be equal to hotel facilities in Vancouver. The city is growing with great rapidity. I do not know of any city in Canada that is growing more rapidly than Vancouver. Now we have got to protect our position. Furthermore, unless we do this, we are certainly liable to a very much larger expense which would ensue from the enforcement of the contract which the projectors of the Canadian Northern made with the city of Vancouver.



Hon. Mr. DUNNING: That is the point.

Sir HENRY THORNTON: Make up your minds to this, that there are several million dollars that we are stung for good and proper in Vancouver.

Mr. McLEAN: That company went into liquidation did it not?

Sir HENRY THORNTON: No.

Mr. McLEAN: It went bankrupt then.

Sir HENRY THORNTON: No, not as I understand it.

Mr. McLEAN: How did it have to be taken over then?

Hon. Mr. DUNNING: The government of that day acquired the stock, and acquired with the stock all the contractual obligations.

Sir HENRY THORNTON: Competent legal advice is that that is a valid contract, and I can assure you that there was nothing left out of that contract, not even the kitchen stove.

Mr. McLEAN: Well you may have to go on with it. But I think you will have an awful time making it up, for a long time to come.

Sir HENRY THORNTON: No, I do not think I agree with you with respect to whether or not such a hotel in Vancouver would pay. I think it will.

Hon. Mr. DUNNING: Yes, I think it will.

Sir HENRY THORNTON: I think it will pay.

Mr. McLEAN: What do you figure on it costing?

Sir HENRY THORNTON: The tentative estimate was about four million dollars, but let me again remind you, that in such a place as Vancouver and under such circumstances, you cannot entirely divorce the hotel from the traffic aspect.

Mr. McLEAN: That is so; it affects your traffic coming out of Vancouver; it does not affect your traffic going into Vancouver.

Sir HENRY THORNTON: Oh yes, because we have in the summer time a large coastwise traffic through our steamships that ply between Vancouver, Prince Rupert and Alaska.

Hon. Mr. DUNNING: The "triangle trip" affects that increasingly.

Mr. McLEAN: Quite so, but are not those people going to take your ships according to the quality of your service on the water?

Sir HENRY THORNTON: No. Of course quality of service is a factor but the Canadian Pacific Railway also operates a competing service almost parallel with ours, and somewhat more extensive.

Mr. McLEAN: How are the rest of your hotels paying at the present time? Outside of the Chateau, have you many hotels that are paying financially?

Sir HENRY THORNTON: I will get the statement.

Mr. McLEAN: Is the Fort Garry for instance paying?

Sir HENRY THORNTON: I will give you the figures. The hotel position in 1926 was this: there was an operating loss of \$38,737 on all the hotels. In 1927 the operating loss was \$10,502. My recollection is that if you go back three or four years you will find that the operating loss was very much more; so that I think it is fair to say that as the economic position of the Dominion improves, and as our traffic increases, the hotel losses become less each year, and I should look forward to no very distant day when our hotels as a whole will at least show some profit. These figures of course do not take into consideration the traffic value which our hotels bring to us.

Mr. McLEAN: What was the operating profit of the Chateau last year?

Sir HENRY THORNTON: I do not think we should give that here. I will tell you privately.

Mr. McLEAN: No, that is all right, Sir Henry, but the fact that you had a reasonable operating profit on the Chateau presents a different picture for the balance of your hotels.

Sir HENRY THORNTON: Practically all of the other hotels show losses running from a couple of thousand dollars up to thirty or forty thousand dollars.

Mr. McLEAN: Yes, I appreciate that.

Mr. CANTLEY: At Vancouver, Sir Henry, do you anticipate a large patronage from tourists motoring up from the States along the Coast?

Sir HENRY THORNTON: Yes, we do. Automobile traffic into Vancouver is a very valuable asset to that Province. In fact it is a very valuable asset to the whole of Canada. I should say that automobile tourists leave at least one hundred million behind them in Canada annually.

Mr. JELLIFF: I have understood that the hotels there are booked up for weeks ahead at times. Can you say whether that is so?

Sir HENRY THORNTON: I think that is true.

The CHAIRMAN: Are there any other questions on the Vancouver hotel proposition or with regard to any of the other hotels? If not, Mr. Henry will proceed.

Mr. HENRY: The total of these items is \$22,527,163. The next item is "Betterments to Equipment, \$1,958,000." That includes locomotives and freight cars.

Hon. Mr. DUNNING: You are still giving details of the 25 million item?

Mr. HENRY: Yes, of the 25 million item: Additions and Betterments to Equipments, \$1,958,000; Electric Lines in Ontario, \$348,100.

Those represent all the items that ordinarily come under the Operating Department. They total \$24,833,263.

The next item is Canadian National Express, \$63,000.

Colonization Department, \$37,750.

These are Capital Expenses of course.

Radio Department, \$15,000.

Stores Department, \$195,476.

Traffic Department, \$38,800.

Finance and Accounting Department, \$6,000.

Legal and Taxes, \$144,800.

Fire Protection, \$165,500.

Canadian National Commercial Telegraphs, \$2,472,601.

Sir HENRY THORNTON: The bulk of that is a provision for the purchase of the lines now owned by the Western Union Telegraph Company in the Maritime Provinces.

Mr. CANTLEY: When do you expect to take those over?

Sir HENRY THORNTON: We are in negotiation now with the Western Union, and we have a final meeting with them the day after to-morrow and it will probably be before very long.

Mr. HENRY: Railway Telegraphs, \$81,599. No, Railway Telegraphs, that is \$121,503.

Great Northwestern Telegraph Company Commercial, \$451,596.

Montreal and Southern Counties, \$53,000.

Oshawa Railway, \$276,700.

Thousand Islands, \$5,300.

Canadian National Steamships, \$10,800.



Mr. STEWART (Leeds): Mr. Henry, that item for the Thousand Islands Railway, is that a new station? We are much interested in that.

Mr. HENRY: It is a small item. \$5,300.

Hon. Mr. DUNNING: I am afraid you will not get a station for that.

Mr. STEWART: It is not a big station or a big railway.

Mr. HENRY: It is for small betterments, that is all.

Sir HENRY THORNTON: I know what you have got in your mind. I think you are right too.

Mr. HENRY: Terminal Warehouse Company, \$7,150.

Total for these other departments, \$4,149,975, for a grand total of \$28,983,238. From that there a deduction in the final estimates of \$3,297,000. For Betterment of Equipment, giving a net of \$25,685,385. That net appears on the summary we have just given.

Sir HENRY THORNTON: That does not include the branch line program.

Mr. HENRY: The division of the estimates between the Eastern lines and the balance of the system is as follows:—

Eastern Lines \$5,144,178.

Balance of the system \$23,539,060.

The CHAIRMAN: Has any member any question to ask in regard to any of those items?

Mr. HARRIS: I intended to ask about the Toronto Terminal Warehouse.

Sir HENRY THORNTON: It was Montreal. Do you want to know what that is?

Mr. HENRY: That is \$7,000. It is a small capital item with regard to a warehousing company that formerly belonged to the Grand Trunk Railway of Canada and came over with the assets of that company.

Sir HENRY THORNTON: I think Mr. Harris knows what it is?

Mr. HARRIS: Yes.

Sir HENRY THORNTON: There are the Marine estimates.

Hon. Mr. DUNNING: It is on the same sheet, \$759,000.

Sir HENRY THORNTON: The deficit in operation of the company and the vessels under the company's control during the year ending December 31st, 1928, \$750,000. Capital requirements \$8,000. That is practically all deficit. I take it there is no question about that. That has all been previously explained.

The CHAIRMAN: Have you any further questions to ask in regard to these estimates?

Sir EUGENE Fiset: Would it be possible next year to have a detailed statement of these figures?

Sir HENRY THORNTON: I noted what you said, General, and we will endeavour to see if that cannot be presented in somewhat the form you suggest, and we are very much obliged to you for the thought.

Hon. Mr. DUNNING: Here it is General. It is very bulky.

Sir EUGENE Fiset: I would not give all those details. A summary of the different items that the members of the Committee could hold.

Sir HENRY THORNTON: I see what the General wants. Although what we did this year has been what we have been doing for the last five years, I think we can do it better next year.

Mr. HARRIS: Following up that suggestion, Mr. Chairman, I make this observation; as a member of the Committee I must frankly admit that I could not follow these figures.

Hon. Mr. DUNNING: It will all be printed to-morrow morning.

The CHAIRMAN: Yes, you will have all these items to-morrow morning, Mr. Harris, in the report.

Sir HENRY THORNTON: I realize how hard it must be for members of the Committee who perhaps may not be day by day as familiar with the operations of the railway as the officers themselves, to follow figures of this sort. It is our desire to try to present the figures in such a way as to give the Committee all of the information they require but not so much information as to be confusing.

Sir EUGENE Fiset: I do not mean, Sir Henry that these details or that summary of the details composing that, should not be included in the estimates themselves. I think a separate sheet might be submitted to the Committee which would be all that would be needed.

Hon. Mr. DUNNING: I have a suggestion to make there; I quite see Mr. Harris' point. I think probably, Sir Henry in view of the practice of former years, if we could agree as a Committee for the Chairman to draft a report for submission to us as a Committee, before it goes to the House, and meet at some future time, by that time all of the details which have been given this morning will be of record, and be in the printed proceedings of the Committee. Members in the meantime could go over that, and we could have the understanding that when we meet to consider the report to be made to the House, anything which arises out of the printed information, Mr. Harris, could then be submitted. I think that would be the best way to get at it this year, and then possibly in future years we might have a summary for distribution.

Sir HENRY THORNTON: I think we can do better. We are always learning.

Sir EUGENE Fiset: For this year we have the explanation and we are satisfied with it.

Hon. Mr. DUNNING: You can follow it much better when you get it in the printed record.

Sir EUGENE Fiset: I would not like to delay the passing of the estimates or the acceptance of the report.

Sir HENRY THORNTON: Colonel Cantley asked a question in regard to wooden cars. We have a statement in answer. May we file that, colonel, if that meets your wishes?



## CANADIAN NATIONAL RAILWAYS

WOODEN CARS IN SERVICE AT DECEMBER 31, 1927

Age in Years	Box	Auto	Flat	Stock, Horse, Poultry	Refrigerator	Coal, Coke, Ore	Ballast	Pulp- wood	Potato	East- man Heater	Tank	Total
47.....			1									1
46.....				1								1
41.....			1	4								5
40.....			1									1
39.....			3	4								7
38.....			1	2				11				14
37.....			5	10		24						39
36.....			1			1						2
35.....		1	2			2						5
34.....	1											1
33.....	6		22			44						72
32.....			1									1
31.....	113		2					12				130
30.....	214			108	179	82		42				625
29.....	56		149		9	89		86				389
28.....	217		117		5	449		129			2	919
27.....	163		93	12	14	68		201			17	568
26.....	1,361	3	313	3	5	110	109	195			1	2,100
25.....	1,074	14	303	196	3	549	143	47	12	5	1	2,347
24.....	473		145	30	12	56		15	13	6	1	751
23.....	1,602		160			26		62	39	8	13	1,910
22.....	3,744	1	283	20	20	94	54	31	8		1	4,256
21.....	3,798	81	1,509	484	17	158	847	73	7	5		6,979
20.....	5,155		224	32	64	1	254	17	61	2		5,810
19.....	3,383		37	327	29	27		1				3,804
18.....	3,698		654	37	227	255	197	8				5,076
17.....	2,901		134	159	103	5	181	6	7			3,496
16.....	3,005		240		463	136	308	31	14	5		4,802
15.....	2,250		199	112	128	135	319	13	34			3,190
14.....	253			20				1				274
13.....			1				65					66
12.....	711		46	128		10	192					1,087
11.....	30		31		96	84	31			157		429
10.....	6		107	1,240	5	5	413	10				1,786
9.....			1	818	370		637	1				1,827
8.....				137			346					483
7.....			1	197								198
No record.....			29	2		2						33
Total.....	34,817	100	4,816	4,083	1,749	2,412	4,096	991	196	188	36	53,484
Cars equipped with M. D. A. included above.....	29,906	63	2,579	3,126	1,651	1,973	3,510	763	161	188	36	43,956

Mr. Chairman, this has no particular bearing on the work of the Committee, but it will perhaps be of interest to the Committee to hear this statement which has just come to me.

For the first three months of this year, the net earnings of the National Railway system are \$10,524,000 as compared with \$8,276,000 the previous year. An increase of \$2,248,000; or rather more than 25 per cent for the first three months of the year. As I say, that has no bearing on this year's figures, but I thought the Committee would like to know what was going on.

Mr. POWER: It will put them in a good humour.

Sir HENRY THORNTON: And you can go away feeling quite happy and contented.

The CHAIRMAN: Is it the wish of the Committee that we have a report prepared and submitted to a future meeting of the Committee?

Sir EUGENE Fiset: No, I think each member will have a copy of the printed evidence, and there is no need to delay.

The CHAIRMAN: Last year we had a general report prepared and submitted to the Committee, and that general report was confirmed by the Committee after it was submitted to the House. Is it your wish to do the same thing this year?

Mr. McLEAN (Melfort): Yes. I move that that be done, Mr. Chairman.

Mr. HARRIS: Make it very brief, Mr. Chairman. In other years we have had a very lumbering report.

Mr. CANTLEY: Would you indicate how much money you intend to spend on branch railways this year, Sir Henry.

Mr. HENRY: I will get the branch line estimates.

Mr. HARRIS: Before you put the question as to Mr. McLean's motion; at one of the early meetings I wanted to ask this question, but I did not want to embarrass the railways. Is it possible that we are going to lose the services of Mr. Henry to the railways?

Sir HENRY THORNTON: The disaster is not imminent. Answering Colonel Cantley, the amount estimated to be expended during the year 1928 is \$10,725,000.

Mr. CANTLEY: Is it all in the west or on the western lines?

Sir HENRY THORNTON: I cannot give you the details of the money but I can tell you that it is divided between Quebec, Ontario, Saskatchewan and Alberta.

Mr. CANTLEY: What about the Sunny Brae Road?

Sir HENRY THORNTON: We do not contemplate that this year. The only program we have, colonel, is the three-year program.

Mr. CANTLEY: I understand that.

Sir HENRY THORNTON: And the figures I have given relate to that program.

Mr. CANTLEY: I was in hopes that it would include that road this year.

Sir HENRY THORNTON: We did not see that we could.

The CHAIRMAN: Gentlemen, you have heard Mr. McLean's motion as to the report. Anyone opposed?

(Carried.)

You have heard the estimates given in detail. We would like to have a motion approving of the estimates of the Canadian National Railways and of the Canadian Government Merchant Marine.

Sir EUGENE Fiset: I move that the Canadian National Railways and the Merchant Marine estimates be approved now.

The CHAIRMAN: All in favour of the motion?

(Carried.)



Sir HENRY THORNTON: Might I ask, Mr. Chairman, when you next meet—we are glad to come and be at your disposal but if you can give us an idea of the date the officers and myself may arrange our time accordingly.

Hon. Mr. DUNNING: The motion as to the draft report having been carried, I move that we meet again at the call of the Chair, when he is ready with his report.

Mr. HARRIS: Why not next Tuesday, Mr. Chairman?

Hon. Mr. DUNNING: If we can say definitely next Tuesday, there might be some questions arising out of the printed report of the proceedings; if the Committee thinks it can get along without the officers, so much the better, but I hesitate to say that to Sir Henry.

Sir HENRY THORNTON: Safety first. We will be here.

Sir EUGENE Fiset: We have heard all the explanations and the book will be full of them; I do not think there is any need of the officers being here.

Hon. Mr. DUNNING: I am obliged for your hint, but one of the reasons for having this Special Committee is to relieve the House and to relieve the Minister from making explanations which can be better made by the officers in Special Committee. I do not know that we can presume that any different practice will be followed in the House than has been in the past. Of course any member can ask any questions when the estimates are before the House. These are in no different position from any other estimates, but the fact that we have conducted an examination here, and the proceedings being printed, has in the past tended to minimize the discussion in the House. I think it is very desirable that this should be so. Every member of the House is provided with a copy of the proceedings and in nine cases out of ten it answers his questions. In the tenth case I will have to do the best I can.

Mr. STEWART (Leeds): Would it not be a good suggestion if we had this report drafted and before the Committee and then if we need the officers we can send for them?

Sir HENRY THORNTON: I think you had better make it Tuesday and have everyone here, and I think that we will really save more time, in that way, than in any other.

Mr. HARRIS: I suggest that Sir Henry use his judgment as to who he will bring here.

Sir HENRY THORNTON: We will have enough artillery.

Mr. Chairman, will you permit me on behalf of the officers and myself, to thank the members of the Committee for the sympathetic consideration which they have given the report and the facts that we have presented to them; and also to thank them for the many helpful suggestions that they have given to us. I can assure you that it has come to be a pleasure to appear before this Committee to discuss annually the affairs of the railway.

The CHAIRMAN: We will adjourn until Tuesday at 11 o'clock in this room.

The Committee adjourned.























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SESSION 1928

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

(Orders of Reference, and Reports, in full.)

No. 7—THURSDAY, MAY 3, 1928

WITNESS:

Sir Henry Thornton, President

Assisted by Officers, Canadian National Railways.

OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1928







## MEMBERS OF THE COMMITTEE

(as named by House March 6)

W. T. GOODISON, Esq.,  
*Chairman*

### MESSIEURS

Bell, L. G. (St. Antoine),  
Cantley, T.,  
Chaplin, Hon. J. D.,  
Drayton, Hon. Sir H.,  
Duff, W.,  
Dunning, Hon. C. A.,  
Fiset, Sir E.,

Harris, J. H.,  
Jelliff, L. H.,  
Jenkins, R. H.,  
McLean, M. (Melfort),  
Milne, R.,  
Power, C. G.,  
Stevens, Hon. H. H.

E. L. MORRIS,  
*Clerk of the Committee.*

## MEMBERS OF THE COMMITTEE

(change in personnel as from April 19)

W. T. GOODISON, Esq.,  
*Chairman*

### MESSIEURS:

Bell, (L. G. (St. Antoine),  
Cantley, T.,  
Chaplin, Hon. J. D.,  
Duff, W.,  
Dunning, Hon. C. A.,  
Fiset, Sir E.,  
Harris, J. H.,

Jelliff, L. H.,  
Jenkins, R. H.,  
McLean, M. (Melfort),  
Milne, R.,  
Power, C. G.,  
Stevens, Hon. H. H.,  
Stewart, H. A. (Leeds).

E. L. MORRIS,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

HOUSE OF COMMONS,

TUESDAY, 6th March, 1928.

Resolved,—That Standing Order 63 of the House of Commons, relating to appointment of the Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (St. Antoine), Cantley, Chaplin, Drayton, Duff, Dunning, Fiset, Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

WEDNESDAY, March 21, 1928.

Ordered,—That the preliminary statement of the Accounts of the Canadian National Railways for the year 1927, laid on the Table of the House on Tuesday, March 6, 1928, be referred to the Select Standing Committee on Railways and Shipping.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, March 22, 1928.

Ordered,—That 500 copies of the minutes of proceedings and evidence taken before the said Committee be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, March 22, 1928.

Ordered,—That the said Committee be given leave to sit while the House is in session.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*



THURSDAY, March 22, 1928.

Ordered,—That the Supplementary Estimates, 1927-28 (Railways and Canadian Government Merchant Marine, Limited), be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

THURSDAY, April 19, 1928.

Ordered,—That the name of Mr. Stewart (Leeds) be substituted for that of Sir Henry Drayton on the said Committee.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

## REPORTS OF THE COMMITTEE

## FIRST REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their First Report. Your Committee recommend to the House that 500 copies of their minutes of proceedings and evidence be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

W. T. GOODISON,  
*Chairman.*

## SECOND REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Second Report. Your Committee recommend that they be given leave to sit while the House is in session.

All of which is respectfully submitted.

W. T. GOODISON,  
*Chairman.*

## THIRD REPORT

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Third Report:—

Your Committee, to whom was referred Bill No. 204, An Act respecting The Toronto Terminals Railway Company, have taken the said Bill under consideration and have agreed to report the same without amendment.

All of which is respectfully submitted.

W. T. GOODISON,  
*Chairman.*

## FOURTH AND FINAL REPORT

MONDAY, May 7, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Fourth and Final Report:

Your Committee, to whom was referred for consideration and for report to the House, the Estimates of the Canadian National Railways and the



Canadian Government Merchant Marine, Limited, held seven meetings, in the course of which they examined sundry witnesses, including:

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.

Major Graham A. Bell, C.M.G., Deputy Minister of Railways and Canals.

Gerard Ruel, K.C., Vice-President of Legal Affairs, C.N.R.

S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.

R. C. Vaughan, Vice-President, Purchases and Stores Departments, C. N. R.

A. T. Weldon, Vice-President, Traffic and Express Departments, C.N.R.

W. D. Robb, Vice-President, Insurance, Colonization and Telegraph Departments, C.N.R.

R. A. C. Henry, Director, Bureau of Economics, C.N.R.

T. H. Cooper, General Auditor, C.N.R.

C. B. Brown, Chief Engineer, Operation Department, C.N.R.

M. S. Blaiklock, Asst. Chief Engineer, Operation Department, C.N.R.

J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine, Limited.

#### CANADIAN NATIONAL RAILWAYS

Your Committee have had under consideration Item 408 of the Estimates, which provides for loans or guarantees of \$39,000,000 to the Canadian National Railway Company for the year ended December 31st, 1928, which is the first full calendar year for which the Estimates of the railway company have been placed upon the basis of the calendar year, instead of the Government fiscal year, which was previously the case. The Estimates considered by the Committee and presented to the House a year ago covered the nine months' period ended December 31st, 1927.

Your Committee have in the course of their deliberations examined in considerable detail the operating statements and the capital expenditures of the company for the year ended December 31st, 1927, and desire to point out that the statements presented this year are in a modified form in that the accounts of the Central Vermont Railway, now in receivership, have been excluded for the entire year, and the accounts of the Eastern Lines, under the provisions of the Maritime Freight Rates Act passed last session, have been shown separately from those of the balance of the Canadian National System, for the six months ended December 31st, 1927.

Your Committee note that the operating results for the year 1927 were not quite as favourable as those for the previous year. The evidence adduced from the officers of the railway disclosed the fact that the chief reasons for the less favourable showing were an increase in expenses due to a general increase in wages, and because of somewhat larger expenditures on maintenance of way and structures to improve the physical condition of the property; and a decrease in earnings due to a reduction in freight rates and to a later harvesting of the grain crop, which delayed the grain movement in 1927 as compared with the movement in 1926. When these factors are taken into account, your Committee is of the opinion that the results of the operations have been very satisfactory indeed.

Your Committee have examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and are satisfied from evidence given that the railway properties have received a benefit in keeping with the capital outlay made.

Your Committee are also satisfied from the evidence given that the accounts for the year 1927 as presented are in accordance with prescribed practices in railroad accounting, and when taken together with the separate statement

respecting the Eastern Lines, reflect accurately the revenues received and the expenditures made, as well as the additions to the capital account during the year 1927.

Your Committee are gratified to observe the continued improvement in the earnings of the company's hotels, and to learn from the officers of the company of the indirect benefit resulting from the operation of the hotel system.

Your Committee have already in their Third Report referred to their consideration of Bill 204, "an Act respecting the Toronto Terminals Railway Company."

Your Committee note that the requirements for the present year, exclusive of the Eastern Lines, amount to \$39,000,000, as compared with the requirements asked for last year of \$22,500,000 for the nine months ended December 31st, 1927, including the Eastern Lines. The chief reasons for the increase are the twelve months' period as compared with the nine months' period of last year, increased interest and a larger program of additions and betterments which was examined by your Committee and found to be reasonable.

From the evidence given your Committee are of the opinion that the amount of \$39,000,000 is necessary for the purposes of the company during the year 1928 and should be passed by the House.

#### CANADIAN GOVERNMENT MERCHANT MARINE, LIMITED

Your Committee have had under consideration Item 409 of the Estimates, which provides for a loan of \$758,000 to the Canadian Government Merchant Marine, Limited, and have, in the course of their deliberations, examined the operations for the year ended December 31st, 1927. Your Committee note that the results of the operations have not been quite as favourable as those for the previous year, due to a highly competitive situation, which resulted in a reduction of freight rates in certain directions, with a resultant reduction in the gross revenue of the company.

Your Committee note that the amount asked for, viz: \$758,000, is to be used to the extent of \$750,000 for contemplated deficits and \$8,000 for betterments, and are of the opinion that this amount is necessary and should be granted by the House.

All of which is respectfully submitted.

W. T. GOODISON,  
*Chairman.*



## MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

THURSDAY, May 3, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 11 o'clock a.m. on above date, Mr. Goodison, the Chairman, presiding. The following members of the Committee were present:—

*Messieurs:* Cantley, Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens (Hon. H. H.), and Stewart (Leeds)—13.

Sir Henry Thornton, President, C.N.R., Major G. A. Bell, C.M.G., Deputy Minister of Railways and Canals, S. J. Hungerford, Vice-President O. and C. Departments, C.N.R., R. A. C. Henry, Director, Bureau of Economics, T. H. Cooper, General Auditor, and several other officers of the railways were present at the meeting.

The Chairman stated that, if any members of the Committee present desired to ask any further questions before proceeding to the consideration of the Fourth and Final Report, he would be glad to have them do so; if not, they would take up the matter of the report and deal with that.

The Report was then read by the Chairman, followed by considerable discussion respecting the method of accounting followed by the railway, referred to in the report as, "the recognized practice in railroad accounting," Sir Henry Thornton and the officers of the railway answering questions in detail, as requested, by members of the Committee.

The Central Vermont Railway, now in receivership, came up for further discussion; also, the Eastern Lines for a lengthy discussion. Mr. Stevens maintained that all accounts, with special reference to the Eastern Lines, should appear in the Annual Report (red book) of the C.N.R., under a certain specified heading, in addition to the present practice of presenting the accounts in separate volumes.

A long discussion followed on this point.

The Chairman announced that it was one o'clock and the report had not yet been fully dealt with, and he desired to know the wish of the Committee.

Mr. Harris moved, "That the Committee do now adjourn, and meet again at 4 o'clock p.m., to-day."

Motion lost on division.

After further consideration of the report, in which some minor amendments, as to certain wording and the construction of certain paragraphs, had been made, but without any material change in the statements contained in the report as a whole, Mr. Jenkins moved, seconded by Mr. Cantley:—

That the Fourth and Final Report, as amended, be adopted.

Motion carried.

The Chairman was thereupon instructed to present the said Report to the House.

The Committee adjourned to the call of the chair.

E. L. MORRIS,

*Clerk of the Committee.*





## MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

THURSDAY, May 3, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock A.M., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: Gentlemen, we have a quorum. At our last meeting there was some complaint made that the members of the Committee could not follow the figures as they were explained, and at that time it was stated that those full figures would be printed in the report. This was done. Are there any questions which any member wishes to ask if so, we will be glad to have them now before we start consideration of our final report. If not, we will take up the final report at this time.

Mr. POWER: General Fiset and Mr. Harris brought that up and I think they are absent to-day.

The CHAIRMAN: We have prepared the report, and a copy has been handed to each member of the Committee. If it is the wish of the Committee I will read the report now. This is the fourth and final report of the Select Standing Committee on Railways and Shipping:

### FOURTH AND FINAL REPORT

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its Fourth and Final Report.

Your Committee to which was referred for consideration and for report to the House the Estimates of the Canadian National Railways and the Canadian Government Merchant Marine, Limited, held seven meetings, in the course of which it examined sundry witnesses, including:

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.

Major Graham A. Bell, C.M.G., Deputy Minister of Railways and Canals.

Gerard Ruel, K.C., Vice-president of Legal Affairs, C.N.R.

S. J. Hungerford, Vice-president, Operation and Construction Departments, C.N.R.

R. C. Vaughan, Vice-president, Purchases and Stores Departments, C.N.R.

A. T. Weldon, Vice-president, Traffic and Express Departments, C.N.R.

W. D. Robb, Vice-president, Insurance, Colonization & Telegraph Departments, C.N.R.

R. A. C. Henry, Director, Bureau of Economics, C.N.R.

T. H. Cooper, General Auditor, C.N.R.

C. B. Brown, Chief Engineer, Operation Department, C.N.R.

M. S. Blaiklock, Asst. Chief Engineer, Operation Department, C.N.R.

J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine, Limited.

## CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration item 408 of the Estimates, which provides for loans or guarantees of \$39,000,000 to the Canadian National Railway Company for the year ending December 31st, 1928, which is the first full calendar year for which the estimates of the railway company have been placed upon the basis of the calendar year, instead of the Government fiscal year, which was previously the case. The estimates considered by the Committee and presented to the House a year ago covered the nine months' period ending December 31st, 1927.

Your Committee has, in the course of its deliberations, examined in considerable detail the operating statements and the capital expenditures of the company for the year ending December 31st, 1927, and desires to point out that the statements presented this year are in a modified form in that the accounts of the Central Vermont Railway, now in receivership, have been excluded for the entire year, and the accounts of the Eastern Lines, under the Provisions of the Maritime Freight Rates Act passed last session, have been shown separately from those of the balance of the Canadian National System, for the six months ending December 31st, 1927.

Your Committee notes that the operating results for the year 1927 were not quite as favourable as those for the previous year. The evidence adduced from the officers of the railway disclosed the fact that the chief reasons for the less favourable showing were a reduction in freight rates and an increase in expense due to an increase in wages and because of somewhat larger expenditures in maintenance of way and structures to improve the physical condition of the property. When these factors are taken into account, your Committee is of the opinion that the results of the operations have been very satisfactory indeed.

Mr. JELLIFF: Mr. Chairman, right there: would it not be well to point out, unless it appears later in the report, that the lateness of the crop conditions in the west affected more unfavourably than this would show the railways for the year. Of course that will be reflected in this year's business, but is that not one factor in the less favourable showing?

Sir HENRY THORNTON: There is no doubt at all but what the late movement of the crop, a portion of which was not moved last year, has had that effect. It was mentioned in the annual report of the company. The statement was made:

The increase in freight rates was not in proportion to the increase in operating expenses, partly on account of the reduced freight rates and partly on account of the early harvest in 1926 and the late harvest in 1927.

Mr. JELLIFF: I would not care to interfere with the report as it is.

The CHAIRMAN: It is in the printed report.

Mr. DUFF: It is better there to be general than to be specific.

The CHAIRMAN (Reading):

Your Committee has examined in detail the capital expenditures made during the year which totalled a very considerable sum, and are satisfied that the railway properties have received a benefit in keeping with the capital outlay made.

Your Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting, and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the Capital account.



Mr. HARRIS: In reading the clause on the top of page 3—is it necessary to put that in? What does the Committee know about railway accounting?

The CHAIRMAN: From the evidence of those who are familiar with it.

Mr. HARRIS: We do not know anything about it.

Mr. McLEAN (Melfort): We think we do.

Mr. HARRIS: I am speaking for myself. Perhaps the rest know more about it.

The CHAIRMAN: We have to base our ideas upon the evidence of those who are familiar with it. That question was asked particularly and it was stated that this was in accordance with the recognized practice of railroading throughout the United States and Canada.

Mr. HARRIS: We did not put that statement in last year's report. Why should we put it in this?

Hon. Mr. DUNNING: In view of the fact that the record of the proceedings of the Committee will indicate that considerable evidence was adduced with respect to the accounting system. That was one of the matters which was discussed and inquired into possibly more extensively than any other phase of the company's business, and is there not an implication, that if we are not satisfied that recognized accounting methods are followed, we would say so, and it seems to me that the implication is that if we are satisfied we should say something of a positive character.

Mr. POWER: You can say that the evidence goes to show that the accounts as presented are in accordance with recognized practice. You need not say you are satisfied.

Hon. Mr. DUNNING: Some members of the Committee are satisfied.

Mr. McLEAN (Melfort): If we are not satisfied with the accounting we should order an outside investigation immediately into the matter.

The CHAIRMAN: If we are not satisfied with the manner of accounting we are in duty bound to present it in this report.

Mr. McLEAN (Melfort): We must either be satisfied or take some other method of finding out.

Mr. CANTLEY: Why not say "It would appear from the evidence given"?

Mr. HARRIS: We could say "It is a recognized practice in railroad accounting."

Mr. POWER: Your objection is that you are not satisfied from the evidence that the accounts as presented here are in accordance with recognized practice?

Mr. HARRIS: I am not in a position to pass judgment on the recognized practice of railroad accounting.

Sir HENRY THORNTON: In this and in similar investigations which are made by individuals who may not be experts in the technique of any particular thing, they call as witnesses individuals who are believed to have some complete knowledge of whatever is being dealt with and in whom they have confidence. They question them and then form their own conclusions based on the evidence of those experts. That is the situation which confronts this Committee. It has called certain witnesses in whom the Committee is believed to have confidence both with respect to their ability and honesty, and after having heard their evidence they then apply their own judgment and come to the conclusion that the situation is as stated in that paragraph. That is the common practice in all investigating bodies.

Mr. HARRIS: Why was this put in this year and not in other years?

Mr. POWER: Because we went further into the evidence with regard to the accounting system this year than we did in other years. We studied the question of accounting and I think whoever wrote that report was justified in saying that



we were satisfied with it, because we did not want any further evidence on it. We should not simply have a copper-plate report or a printed form to fill in; we should vary it from year to year. It shows we have some initiative, if nothing else.

Hon. Mr. DUNNING: One of the most important matters before this Committee is the manner in which the accounts are presented, because if they are not presented in accordance with the recognized system of accounting, our work from year to year would be made ten times more difficult. I frankly confess that it is to me, as Minister, a matter of some importance that recognized railway accounting principles should be followed. I regard that as a vital matter for this Committee, and if there is any doubt at all now after the inquiry which has been made, that there is or has been any departure from recognized railway accounting principles I think this question is important enough to keep the Committee here for a week to get to the bottom of it. To me it is a matter of supreme importance. We cannot appreciate what our property is doing unless we feel sure that the foundation for the structure of our accounting is sound, and if there is any doubt about it we should go fully into the matter, call further evidence and do everything possible to assure ourselves that the practice followed is sound because from that accounting we get the information upon which to base our judgment, and if that information is wrong, our whole work is wrong. I would like to encourage a thorough examination up to the point where the Committee says that it is satisfied with the system as it is, or that it is not satisfied and that certain changes should be made. As I see it, it is a matter of the most vital importance.

Mr. CANTLEY: I am almost in complete accord with what the Minister has said, but I would like to point out that most of the members of the Committee are not possessed of sufficient knowledge to make an authoritative statement as to whether the accounting system is correct or not.

Hon. Mr. DUNNING: That is not the point—

Mr. CANTLEY: That is part of the point. I was going to make the suggestion—I do not know whether it will meet with the approval of the Committee or of the Minister—that we turn back to the preceding page and continue that so as to read: “Your Committee has examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and they are satisfied that the railway properties have received a benefit in keeping with the capital outlay made,” and then follow on with the words “And from the evidence given it would appear that the accounts as presented are in accordance with the recognized practice of accounting and reflect accurately”—and so on. It is not as specific as the statement which is made, which members might use with a certain amount of hesitation.

Hon. Mr. DUNNING: I think we are in a measure talking of different matters, Colonel Cantley. I am dealing with the words “the recognized practice in railway accounting.” We do not require to be expert accountants ourselves in order to be able to determine from the evidence whether the practice followed is in accordance with recognized railway accounting or not. We can hear the witnesses as to what the standards of accounting are in the Interstate Commerce Commission, which we did; we took evidence on that point. We are capable from hearing the evidence given by the expert accountants of knowing whether the system is in accordance with recognized practice in railway accounting.

Mr. POWER: That is all we have here.

Mr. CANTLEY: No. This says: “Your Committee has examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and are satisfied that the railway properties have received a benefit in keeping with the capital outlay made”.



Mr. POWER: That is another phase of it.

Hon. Mr. DUNNING: With regard to the other phase I think Colonel Cantley is right. That is a matter for the auditors, and we have adopted the auditors' report. But with regard to the first, it is a matter of great importance in regard to the practice in railway accounting as to whether or not what we are following is recognized practice or not. With regard to the accounts themselves, we cannot determine that for ourselves; we can only rely on the internal audit, and the audit by the independent firm of chartered accountants.

Mr. CANTLEY: I am satisfied with the method of accounting, but turning back to page 2, the last line, you say "are satisfied that the railway properties have received a benefit in keeping with the capital outlay made". How can the Committee make that assertion? That can only be made by an examination of this property from one end of the country to the other, and I do not think we should permit ourselves to make a statement of that kind which is so very sweeping and so very broad.

Mr. McLEAN (Melfort): If the Committee is not satisfied that the Railway properties are benefited in accordance with the capital outlay, they must say one thing or the other, and they should go farther and investigate now.

Mr. CANTLEY: I was raising a point upon which there may be some difficulty.

Mr. McLEAN (Melfort): We are asking for a further sum of money to be spent in the same manner, and if I am not satisfied that the physical condition of the property is better, I could not feel justified in voting for further moneys to be spent in the same way. As a matter of fact, from the evidence given, and my own observations, I think the money voted in the past has been spent to good advantage, so I feel free to ask that more be given in the same manner.

Mr. POWER: The only way in which we can be expected to satisfy ourselves on that point is by the evidence given. Evidence has been given with regard to the capital outlay. We have been told by experts of the road that the capital outlay is such that the road has received benefit to the measure of the amount expended. We cannot contradict that, even if we did make an inspection trip over the road.

Hon. Mr. DUNNING: The point is that if we are at all doubtful as to the propriety of this we should examine upon any point upon which we are doubtful.

Mr. DUFF: We cannot open that up now; we have approved of it.

Mr. POWER: That is purely technical. I do not think that the Minister or Sir Henry Thornton want us to have any doubt about it.

Sir HENRY THORNTON: Certainly not. You might say this, if I may be allowed to make this observation, "We are satisfied from the evidence given that the railway properties have received—" and so on.

Hon. Mr. DUNNING: I have no objection to that. We can only satisfy ourselves, as Colonel Cantley says, from the evidence given.

Mr. STEWART (Leeds): You use the words at the top of page 3 "from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting—" and so on. Why not in the other?

Hon. Mr. DUNNING: I see no objection to that.

Mr. POWER: In other words, the evidence given before this Committee would show that the railway properties have received a benefit in keeping with the capital outlay.

Hon. Mr. DUNNING: Insert after the word "satisfied" the words "from the evidence given".

Mr. CANTLEY: That is the only thing upon which you can base your opinion.

The CHAIRMAN: That is, at the bottom of page 2, the last paragraph would then read:

Your Committee has examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and are satisfied from the evidence given that the railway properties have received a benefit in keeping with the capital outlay made.

Hon. Mr. DUNNING: I think with regard to Colonel Cantley's remarks regarding the paragraph at the top of page 3, this could be made to read, "from the auditors' report".

Mr. HARRIS: If you do that I am satisfied, because the very point in my mind is in the auditors' report, by a reservation put in by the auditors on page 13, and of necessity will have to put in for all time to come until such time as, "the investments in road and equipment appearing in the books of the Companies as at the 1st January, 1923, were accepted by us",—that is, until such time as the capital investment is put down on a business basis. That is the reservation of the auditors. If you put in a qualifying and covering statement here of the auditors, I am satisfied with the clause. I am certainly not going to be in the position in regard to this Committee unless the auditors go into the same position.

Hon. Mr. DUNNING: On what page is that?

Sir HENRY THORNTON: On page 13. The auditors' certificate:

We have examined the books and records of the Companies comprising the Canadian National Railway System for the twelve months ended the 31st December, 1927. The investments in Road and Equipment appearing in the books of the Companies as at the 1st January, 1923, were accepted by us.

We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1927, and we further certify that, in our opinion, the attached Income and Profit and Loss Accounts for the year ended the 31st December, 1927, as correctly stated.

There is nothing else they can do or we can do.

Mr. HARRIS: I appreciate that, but I think it would be rather absurd for this Committee to put out a general statement as conveyed in this paragraph which might lead the public to believe that it is the whole proposition.

Hon. Mr. DUNNING: It only relates to a year.

Mr. HARRIS: "As well as additions to capital account."

Hon. Mr. DUNNING: It only relates to the year.

Sir HENRY THORNTON: During the year.

Hon. Mr. DUNNING: This auditors' statement makes the qualification as at the 1st of January, 1923, which is when the properties were put together. It does not relate to the current year at all.

Mr. HARRIS: In that these assets are taken on the books on January 1, 1923, at a certain figure, and that figure is embodied in this report, and this Committee is passing the report.

Hon. Mr. DUNNING: There would have to be a starting point at this consolidation from a bookkeeping point of view. That was done apparently as at the 1st of January, 1923, and everything which has occurred since that time in the way of capital additions has come under the purview of this Committee from year to year. We certainly do not want to say anything which endorses the position as created on the 1st of January, 1923. I agree with Mr. Harris there, that we cannot either prove or disprove—



Mr. HARRIS: That is reflected in the statement.

Hon. Mr. DUNNING: But I do not take it that the language in the report has that effect.

Sir HENRY THORNTON: Suppose we say, "and the expenditures made during the year as well as the additions of capital account for the same period"? That limits it entirely to the last twelve months.

Hon. Mr. DUNNING: I am afraid that would not quite do, Sir Henry.

Sir HENRY THORNTON: Or you could say this: "and reflects accurately the revenue, receipts and expenditures made as well as additions to capital account during the year." Move the phrase "during the year" to the end of the paragraph, and that will qualify everything which precedes it.

Hon. Mr. DUNNING: Or put the words "during the year" again after the words "capital account", and it will have the same effect. It will then read:

The Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the capital account during the year.

Mr. McLEAN (Melfort): Sir Henry Thornton's phrase was, I think, the better one.

Mr. CANTLEY: Put the words "during the year" at the end of the paragraph.

Sir HENRY THORNTON: That qualifies everything that precedes it, if I remember my school-books.

Mr. HARRIS: Before you go on with that, would this suggestion help:

Your Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the capital account.

and then add the words "for the year"?

Mr. POWER: Leave out "during the year"?

Hon. Mr. DUNNING: Your suggestion, Mr. Harris, would be that after the word "account" we add the words "for the year"? That would include the principles of accounting and everything during the year. After all, that is all this Committee has to do.

Mr. CANTLEY: Would you include the words "from the evidence given" or "the auditors' report"?

Hon. Mr. DUNNING: It is all part of the evidence—part of the record.

Mr. HARRIS: After the words "accordance with" insert the word "a"—"are in accordance with a recognized practice—" and so forth.

Mr. JELLIFF: The account covers the total year of 1927?

Mr. DUFF: Why not insert after the word "is" in the first line the word "also" or the words "further satisfied", because you use the word "satisfied" in the preceding paragraph. Would that not read better?

Hon. Mr. DUNNING: I do not think it makes any difference. Mr. Harris has now made a suggestion which is quite debateable.

Mr. POWER: Why not say "the evidence shows there is a recognized practice"?

Sir HENRY THORNTON: There is one and only one recognized practice.

Hon. Mr. DUNNING: Inserting the words "a" implies that there is more than one.

Mr. HARRIS: One of the officers of the company, Mr. Cooper, suggested that there were several ways of treating the same point.

Hon. Mr. DUNNING: All within the same recognized practice. We could examine Mr. Cooper again on that.

T. H. COOPER recalled.

Mr. HARRIS: I think Mr. Cooper will recall that some railroads found it good practice to set up depreciation to take care of the exhaustion of different elements, while other railroads did not. Some of the class "A" roads did and some did not.

Mr. COOPER: You are speaking of road property now?

*By Mr. Harris:*

Q. Yes.—A. Speaking of roads in the United States, they all accrue depreciation on equipment, but it is optional in so far as it concerns road property—fixed property.

Q. We do not accrue any depreciation on our road?—A. No, we do not, with one exception which was explained to the Committee.

Q. That makes it a little different in practice from that of the class "A" roads in the United States?—A. Yes.

*By Mr. McLean (Melfort):*

Q. What about the practice of the other roads in Canada?—A. The C.P.R. does not accrue depreciation on equipment. I do not know what their practice is, but I know they do not accrue depreciation on equipment.

*By Hon. Mr. Dunning:*

Q. They do not?—A. They do not.

Q. And we do not?—A. And we do not.

Q. And all class "A" roads in the U.S. do?—A. They all do, on equipment. It is mandatory so far as the I.C.C. regulations are concerned to accrue depreciation on equipment, but the regulations do not prescribe any rate, so that I think the mandatory provisions of the regulations are somewhat voided.

Q. They have very low rates?—A. Some of the roads have.

Mr. HARRIS: The Committee must realize it is almost impossible to strike a rate when the investment in road and equipment is almost \$2,000,000,000. It seems to me, as I review the evidence, there are two classes of railroad accounting, probably both good.

Hon. Mr. DUNNING: My question related to the mandatory provision of the I.C.C. Of course, back of it was the idea that the I.C.C. definitely recognized a statement of accounting in connection with which there is apparently, according to Mr. Cooper's evidence, a mandatory provision with respect to depreciation of equipment, but none with respect to depreciation rate paid. Mr. Cooper's further evidence is that although it is mandatory to provide depreciation on equipment there is no mandatory rate to the effect, and the mandatory provision is very largely vitiated by the freedom of the companies to charge as low a rate as they like.

*By Hon. Mr. Dunning:*

Q. Have you any ideas of the rates charged by the U.S. class "A" companies, which would give us an idea of what is done in regard to equipment?



Mr. HARRIS: The rate on the C.N.R. is zero.

Hon. Mr. DUNNING: Yes.

The WITNESS: Some of the roads adopt a rate of  $1\frac{3}{4}$  per cent and some  $1\frac{1}{2}$  per cent. They run all the way up to 6 per cent, which seems to be the highest rate.  $1\frac{1}{2}$  per cent seems to be the lowest rate, so far as the list of roads which I have here is concerned.

*By Hon. Mr. Dunning:*

Q. Tell me, Mr. Cooper, what in your accounting practice takes the place of that depreciation item?—A. On the Canadian National we have adopted the practice of writing out from the property account by a charge to operating expenses the ledger costs of all equipment retired from service. As equipment passes out of service, we retire the equipment from the property account by a charge to operating expenses, and we think that over a period of time we get precisely the same results as if we were to adopt a depreciation account.

Q. In order to make that comparison, tell me now what do the American class "A" roads do with regard to retirement, that is, those which have a depreciation account? How do they deal with retirements?—A. They also write the equipment out of the property account and into operating expenses, but they charge it to reserve. The accrual depreciation more evenly expresses the retirement of equipment over a period of time.

Q. They charge the retirement against a depreciation account previously accumulated?—A. Accumulated by a charge to operating expenses so that over a period of years we must arrived at the same result. There is one further observation which I might make and that is that the Canadian authority, which is the Board of Railway Commissioners, did not adopt the Interstate Commerce Commission's regulations in their entirety. For a period they objected to accrual of depreciation. In fact, we had a case—the St. Clair Tunnel Company—which was one half in the States and one half in Canada and to comply with the regulations in the States we did accrue depreciation on equipment, and the Dominion Bureau of Statistics insisted that we cancel those depreciation charges, and there is to-day no regulation, so far as the Canadian regulations go, which compel us to adopt depreciation on equipment.

*By Mr. Jelliff:*

Q. Would not the result of that make our net earnings show less, which would be an advantage before the public?—A. You mean by the non-accrual of depreciation?

Q. Yes. If you take the item there of operating expenses, it makes your net earnings less which makes really a more sound showing, it seems to me, for the Canadian people.—A. By taking care of equipment retirements as and when those retirements take place, you are dealing with actual facts. If you are dealing with accruals of depreciation you are making estimates and guesses based on expectation of life, and quite a number of factors enter into that. Our conclusion was that our method was sound, and that over a period of years would produce the correct results, so far as operating expenses are concerned.

*By Mr. McLean (Melfort):*

Q. Some of your road is in the United States and some in Canada. Do you follow the two practices—that of the Interstate Commerce Commission in the United States?—A. On the Canadian National lines in the United States we are compelled to adopt the same regulations.

Q. Do the other Canadian railroads, in connection with their Canadian equipment, follow the same practice as you do?—A. I cannot say what they do, but I do say that they do accrue depreciation—speaking of the Canadian Pacific in particular.

*By Mr. Harris:*

Q. What is the \$60,000,000 which the C.P.R. show in their annual report as "Depreciation"?—A. In the Canadian Pacific Report they have an item of "Equipment and Replacement Reserve" amounting to \$1,157,000. The Canadian National balance sheet shows accrued depreciation against equipment of \$6,500,000. In the case of the Canadian National that is only in respect to lines in the United States, so that we have six times as much equipment depreciation accrued on our American lines as the Canadian Pacific has on its entire system, and I think I am safe in saying that the Canadian Pacific do not accrue depreciation on equipment.

Q. I understood you to make the statement in your previous examination that they wrote it off each year.—A. I did not testify at all as to what the Canadian Pacific did.

*Hon. Mr. Stevens:*

Q. I have just come in, and perhaps I should apologize for asking a question, but this touches a point we discussed previously, namely, the methods you follow in writing off the full amount when a piece of equipment is discarded, and the other method of writing off a percentage each year. I know nothing about the Canadian Pacific, but I am presuming we are discussing the National method which is followed in writing off the full amount when the equipment is discarded.—A. Yes.

Q. But does not write off anything in the interim. I raised that question—Sir Henry Thornton was not here—when we discussed that principle. In fact, I rather agree with the principle which you follow as being a sound one, given a proper starting point, if I may use that expression. So as to familiarize you, Sir Henry (Thornton), with that point I will say that the question I raised was that in the history of the operations under your control the procedure upon which apparently no definite information can be given, namely, that it was not known when you took it over whether a reasonable depreciation had been provided for or not, and you did not even know what method was followed, whether written off annually or by the process now adopted; consequently when you took over there was a given amount of equipment and we have no method of finding out whether it was written in the books at a fair valuation or whether it had an enhanced valuation, or whether it was the extreme reverse, more written off than was warranted—

SIR HENRY THORNTON: What happened was this—

HON. MR. STEVENS: Just let me complete this one point. —therefore, we are unable to say whether the process now followed is a just one. I am inclined to agree that it is fair enough to write off the full amount when the piece is discarded, if when you start you know just where you are at, and have a fair valuation of the equipment in hand.

SIR HENRY THORNTON: Whatever may or may not have been done prior to January 1, 1923, what happens now is that when any particular part of our equipment disappears from service, it is all written off, so we are taking up whatever may have been the misdeeds of the past in our policy with respect to the present and the future.

Before you came in Mr. Cooper pointed out that there were two schools of thought in connection with that and we decided, after a great many years of discussion and argument, that the practice we are following now, spread over



a period of years, is more accurate and reaches substantially the same result as setting up an annual charge to depreciation; that is, if you take it through a period of years, we are charging at a basis of exact figures rather than a setting up of a percentage of depreciation which is based on the expectancy of life of equipment. Therefore, over a period of years we get precise results. The policy we are following is not only, we think, a sound policy but it is about the only policy which we can follow, having regard to the fact that we do not know what happened prior to 1923.

Hon. Mr. STEVENS: That frankly brings us to one point about which I feel very much perturbed; that is in this clause which I understand is now before the Committee, it says:

Your Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the capital account.

Now, I am not inclined to call that into question in so far as the method is concerned, but in those accounts you have one item which I mentioned the other day, one billion, nine hundred million and some odd dollars, "Road and Equipment", which includes the very point we are now discussing, namely, the value of all your equipment and we have no way through your accounts of understanding whether that \$1,900,000,000 is reflected in anything like the accurate or reasonable value of the actual assets. We cannot determine that. Therefore, how can we say that the accounts accurately reflect the situation?

Sir HENRY THORNTON: I think before you came in there was some modification made in that paragraph which perhaps may clear up the question in the minds of the Committee. This Committee is dealing with this year, and it was proposed to so change the paragraph as to indicate that the Committee were satisfied with respect to what happened this year. Perhaps if the Chairman would read it as proposed, it might meet your point.

The CHAIRMAN: That clause reads now: "Your Committee is also satisfied from the evidence given that the accounts for the year 1927 as presented are in accordance with recognized practice in railroad accounting, and reflect accurately the revenues received and the expenditures made during the year as well as the additions to the capital account during that period."

Hon. Mr. STEVENS: Yes. The only thing is—I think it will be recognized by my language, that I am not reflecting on the present management, that is, on the management say of the last eight or ten years—we have no starting point in these accounts other than, of course, to go right back to the beginning of the different systems.

Sir HENRY THORNTON: We were obliged to accept the accounts as of January 1, 1923. When I say, "we" in that sentence, I mean you and I and all of us. Now, whether they are right or whether they are wrong, whether they are right or wrong, we cannot correctly determine, and we accept that as it is, and then we proceed to see that year by year, so far as the operations of each year are concerned, that they are accurate, and in accordance with recognized accounting practice. Now, whatever mistakes may have been made prior to 1923 in regard to equipment, we catch that up year by year in charging off the value of each piece of equipment, as it disappears from service. We may be accepting an excessive burden, I do not know.

Hon. Mr. STEVENS: Except in this regard, Sir Henry; we will say there were fifty years of operation preceding your advent to office. If during that fifty years there was a substantial quantity of equipment bought, used, and discarded, and not written off, it would still be carried in the account known as

"Road and Equipment." Its value would remain in there as an asset when it has disappeared long ago.

Hon. Mr. DUNNING: What can we do to remedy that?

Sir HENRY THORNTON: I do not know what we can do with that.

Hon. Mr. STEVENS: I think this is the crux of the whole matter, the correct representation of the picture.

Hon. Mr. DUNNING: It comes back to the value of what the Canadian people pay for what they got.

Hon. Mr. STEVENS: Just the reverse. It comes back to what the people got for what they paid.

Hon. Mr. DUNNING: That means the same thing.

Hon. Mr. STEVENS: No, I think not. We are the buyers.

Sir HENRY THORNTON: I may say, Mr. Stevens, that since 1914, the Interstate Commerce Commission in the United States has been trying to solve that problem. That is twelve years ago, and they have not yet solved it.

Hon. Mr. STEVENS: Yes, I know that. They have taken some steps though. They have made some revaluations and appraisals and so on. However, I do not want to get myself into the position of seeming to reflect on the management. What I am reflecting on is the accuracy of the picture to the people of Canada, which includes of course, necessarily, modern accounts as well as old accounts.

Hon. Mr. DUNNING: There was only one way originally, whereby that could have been done, and that was by taking over these properties through receivership instead of assuming the entire liability.

Hon. Mr. STEVENS: I agree with that, but that is an old story.

Hon. Mr. DUNNING: I had some strong opinions on it at the time, but to start now and try to bring about the same result as would have been secured through receivership originally, is awfully difficult.

Hon. Mr. STEVENS: I know, but if I may put it in this way; we are dealing here as shareholders of an enterprise. We are more or less a small body of representative shareholders. We are giving out to the great body of shareholders of this enterprise, a picture.

Sir HENRY THORNTON: You are a committee of shareholders.

Hon. Mr. STEVENS: And we are giving out a picture of this enterprise. If we give our stamp of approval on this statement, we are saying to them, "this statement which is published in the press, reflects accurately the whole picture." I will agree that by your amendments you are limiting it, but it will not have that effect on the public. The effect on the public will be that that is an accurate presentation. In that presentation is included the sum total of old accounts for fifty years prior to the present management, and that I submit with all deference,—I think Sir Henry will agree with me at once in all probability,—is far in excess of its actual value.

Mr. McLEAN (Melfort): I think, Mr. Chairman, that the public will take it that we are presenting a picture of the road in 1927, the condition of the accounts and property as compared with 1923, when we established these valuations, and as in 1926, when the accounts were in a certain condition. This is only a comparative picture as of these years.

Hon. Mr. STEVENS: We have never established any valuation, Mr. McLean; that is the unfortunate part of it.

Hon. Mr. DUNNING: Not a valuation, which could only have been established through a receivership in the first place. There is one accurate way of determining the value of a property which is bankrupt, as these companies were;



and that is, by going through a receivership, and ascertaining the value by competition in the purchase price from the receiver. Had that been done, originally, we would of course have had the value as of that date, the value determined by what the people who were buying it thought it was worth; which is, after all, the real index of value under those circumstances. The Chicago-Milwaukee, I think, is an excellent parallel to that situation, and it has been just recently cleared up, and there was, as Mr. Stevens says, a very drastic writing down of values, but the writing down of values was accomplished, not by any arbitrary appraisal of different classes of equipment, but on the basis of what some one was willing to pay for it, which is, after all, the great index in connection with a situation of that sort. I appreciate that all this discussion, Mr. Chairman, is leading—and properly leading—to the question of the present capitalization of the C.N.R.; and after all, it gets down to this, the Canadian people have spent this money; whether it remains charged to Canadian National account as it is to-day, or charged to the Minister of Finance, Dominion Account, is not of much importance to the Canadian people; they are out the money anyway. What is of importance is a correct picture of this utility, and on that point, I think I can assure the Committee that both the Government and management are working on the question of capitalization, and have been now for a very long time. I assure you, Mr. Stevens, it is a most complex thing, and frankly, we have almost abandoned the idea of getting at it on any basis of valuation. I think I can say that, Sir Henry, that any basis of valuation, would appear to be the wildest guess with respect to a very large part of this property. We are looking at it now, rather from the point of view of relations between the Dominion and the company financially

Hon. Mr. STEVENS: Why, Mr. Minister, should it be a question of the wildest guess. Frankly, I do not agree with you there.

Hon. Mr. DUNNING: Have you looked at the comparative valuations of existing class A roads, even including the Canadian Pacific? The comparison is so wide that I would think it justifies what I have said.

Hon. Mr. STEVENS: But you are talking about book valuations, which is not necessarily a correct estimate.

Hon. Mr. DUNNING: No, the accepted valuations of the Interstate Commerce Commission of the particular roads. That is the difficulty.

Hon. Mr. STEVENS: You mean, under their re-valuation scheme of ten or fifteen years ago?

Hon. Mr. DUNNING: Yes.

Hon. Mr. STEVENS: What do they place it on? A replacement value basis, I think?

Hon. Mr. DUNNING: No.

Sir HENRY THORNTON: Cost, and reproduction. There are three ways in which you can value a property: First, on the basis of what it cost; what it would cost to reproduce it, or on the basis of what it earns. And from those three points, you can argue for years, and still reach no conclusion which will satisfy every one.

Mr. McLEAN (Melfort): Could you value it on the basis of what you think some one would pay for it?

Sir HENRY THORNTON: That would be a pure speculation.

Mr. CANTLEY: Mr. Chairman, are we not only dealing with the account of the revenues received, and the amounts expended during the past year?

The CHAIRMAN: Yes, that is right.

Mr. CANTLEY: Then it appears to me that all this discussion is not in point.

Mr. HARRIS: That is what we started on when I raised the point. If we get back there, we might get somewhere.

Mr. CANTLEY: Am I right in the suggestion that the accounting is in accordance with the rule laid down by the Railway Commission?

Sir HENRY THORNTON: Yes, that is right.

Mr. CANTLEY: Then why do we not say so instead of saying it is a recognized practice in railway accounting?

Sir HENRY THORNTON: You may put it that way if you like. I did not draw the report.

Hon. Mr. DUNNING: Is it correct to say the Railway Commission laid down rules on accounting, Mr. Cooper?

Mr. COOPER: Yes.

Hon. Mr. DUNNING: Then, your accounting is in accordance with the rules of the Railway Commission.

Mr. CANTLEY: Why not pass it on to that Commission, then?

Mr. McLEAN, (Melfort): I would judge this: if you want it absolutely accurate in this statement, we would have to say that the accounting is in accordance or the accounts as presented are in accordance with the recognized practice in the respective countries in which the properties are situated. We have one system, under the Interstate Commerce Commission, of dealing with equipment, and another in Canada; both probably equally fair and useful, but slightly different.

Hon. Mr. DUNNING: That brings you back exactly to the language that is in the report as covering the situation.

Mr. McLEAN: Quite so. It might be changed as I have suggested.

Sir HENRY THORNTON: You might say the "prescribed" instead of the "recognized" practice. Prescribed, means of course, prescribed by law.

Mr. CANTLEY: Why not fall back on the highest authority we have, the Railway Commission.

Hon. Mr. DUNNING: Because they do not govern us with respect to the United States. There, the Interstate Commerce Commission governs us.

Hon. Mr. STEVENS: It does not cover your full accounting system.

Hon. Mr. DUNNING: We could use the word "prescribed" instead of "recognized." Then, there would be no question about it fulfilling the requirements of both countries.

Mr. CANTLEY: That is better.

Mr. HARRIS: We certainly ought to say what railway accounting we refer to. We should not use the bald statement "recognized railway accounting" when this Committee knows it is not in accordance with the Interstate Commerce Commission, whose railways are a great deal more in magnitude than those under the Railway Commission.

Sir HENRY THORNTON: If you say "prescribed" that necessarily must mean the practice prescribed in each country. It cannot be anything else.

Hon. Mr. STEVENS: The only thing is that in Canada the portion of the practice that is prescribed is limited in comparison with the whole.

Sir HENRY THORNTON: "Prescribed" still covers it. When it is prescribed, it is prescribed insofar as Canada is concerned, by our own laws and regulations. It is similarly prescribed in the United States.

Mr. McLEAN: If you want to go further, you might say "as prescribed by the governing authorities," if more detail is wanted, which I think is not.

Sir HENRY THORNTON: As prescribed by law or regulation.



Mr. STEWARTS (Leeds): I would like to ask Sir Henry if the method of writing off equipment has been followed since the road was taken over?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: That is not the date at which the roads were taken over. That is from the date of the Consolidation when Sir Henry took charge. What happened prior to that time, Mr. Cooper?

Mr. COOPER: Each company had its own method; the Grand Trunk one method, the Canadian Government Railways another. I say, method, but generally speaking, they did not have any method at all; they did not have a uniform method.

Hon. Mr. DUNNING: The Canadian Northern had a different one still.

Mr. COOPER: I presume so. The Canadian Government Railways did not write anything off. The Grand Trunk had a practice of replacing a unit by another one. If they bought one thousand box-cars, to the extent that they had to make good a certain number of units, that was an operating charge. Any additional amount was a capital charge; that was their practice.

Hon. Mr. DUNNING: That would produce the condition Mr. Stevens speaks of. Did you get that Mr. Stevens? He speaks of the old Grand Trunk practice.

Hon. Mr. STEVENS: You have the three systems, the Grand Trunk and so one. None of them was the same, and nobody knows apparently whether there was a fair depreciation or whether they wrote off anything at all.

Hon. Mr. DUNNING: Mr. Cooper has described the system on the Grand Trunk. Will you repeat that, Mr. Cooper, with respect to your illustration of a thousand box cars?

Mr. COOPER: They went by units. Their capital account was supposed to represent so many locomotives and cars, and so on. Now, taking the actual count necessary to replace the units in service, it would be treated in this way: The replacement of those units was an operating charge; any additional purchase was a capital charge. That had the effect of charging to operating expenses the cost of substituting a modern unit for an equipment unit which was purchased away back in early times.

Hon. Mr. STEVENS: Which is a fair thing? If you discard one engine, and replace it with another one by the exigencies of the present demands, it should be charged to operations.

Sir HENRY THORNTON: Well, no. Strictly speaking, Mr. Stevens, if you replace a locomotive of a certain tractive power with a locomotive with twice that tractive power you ought to charge to capital the half of the expense, from an accounting point of view. You have the same thing in the renewal of rail. If you renew a fifty pound with a hundred pound rail, you charge to expense the cost of renewal in kind, and the additional cost to capital.

Hon. Mr. DUNNING: Have you any knowledge, Mr. Cooper, of how long prior to the amalgamation the Grand Trunk followed that practice?

Mr. COOPER: I should say for twenty years.

Hon. Mr. DUNNING: That helps us in getting an approximate idea of the bearing of it; nothing final, of course. It does not look as if the equipment was inflated very much when you got it, if they had been following that practice for twenty years on the Grand Trunk.

Mr. COOPER: The Grand Trunk itself was a consolidation of any number of companies, and to go back beyond twenty years would be almost impossible.

Hon. Mr. DUNNING: If you take twenty years in the life of equipment, there would not be much left prior to the twenty years, would there?

Mr. COOPER: Yes.

Sir HENRY THORNTON: Oh, yes, I should think so.

The ACTING CHAIRMAN (Mr. Power): Is the Committee satisfied? Then, it is desired to alter the clause by inserting the word "prescribed" instead of "recognized" on the second line.

Mr. HARRIS: I think it might be well to go a little further than saying "prescribed in the respective countries." That would indicate that it was in accordance with the prescribed practice.

Hon. Mr. DUNNING: I am quite satisfied with either "recognized" or "prescribed". I think it covers the point either way.

The ACTING CHAIRMAN: Is the Committee satisfied that the accounts as presented are in accordance with the prescribed practice in railroad accounting? We will take it then that the word "prescribed" is inserted instead of "recognized".

Hon. Mr. STEVENS: There is only one other point in approving of that clause, which, after all, I would look upon as perhaps one of the most important clauses in this whole report. It is this: You have segregated the Central Vermont Railway and the evidence is, I think, clear on this, that we have invested in the Central Vermont Railway a very much larger sum than its value; and furthermore, we are spending what is it—\$5,000,000, acting as receivers?

Sir HENRY THORNTON: The receivers are spending that, not the Canadian National. We have not guaranteed that.

Hon. Mr. STEVENS: You are acting as receivers, are you not?

Sir HENRY THORNTON: No. The receivers are appointed by the court, and they are the officers of the court.

Hon. Mr. STEVENS: It is a first charge before all your charges, so you will have to assume it, whether you like it or not, or lose your thirty millions. I mean, that you have to assume that, Sir Henry?

Sir HENRY THORNTON: When it comes to the reorganization, that question will have to be considered.

Hon. Mr. STEVENS: It is a first charge. It will take precedence over all other charges.

Sir HENRY THORNTON: Oh, yes, the receivers' certificates, of course, are prior charges.

Hon. Mr. STEVENS: So you will have to remove that before you can receive your own. Whether you take possession of the road, or otherwise, you would have to assume that cost. What I was coming at was this: No matter what method you use, the point is that that five million dollars is a replacement of what was the result of a disaster due to flood and normally should go into "Operation".

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Certainly it should go into operation, but, by taking the Central Vermont out of the picture entirely, by the process of putting it into liquidation, you are removing from the operation and expense accounts the replacement of that road?

Sir HENRY THORNTON: May I ask that no report be made now with respect to the discussion of the Central Vermont? That is, no stenographic report.

The ACTING CHAIRMAN: Is the Committee agreeable to that?

Carried.

Discussion followed.



The ACTING CHAIRMAN (Mr. Power) (To the shorthand reporter): (You may continue now.)

Hon. Mr. STEVENS: Assuming that the Eastern lines lost money before the Maritime rates came into force, a year before; then, the Maritime Freight Rates came into force making a code or tariff of rates of so much. That code is assumed by the country, but you do not show in that, do you, the losses you have previously made or the losses made independently of that code? Is it included in the main statement?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: In this statement?

Hon. Mr. STEVENS: No, in the main statement.

Hon. Mr. DUNNING: No, it is not there.

Hon. Mr. STEVENS: It should be there.

Hon. Mr. DUNNING: It is a payment from the former Government under the terms, to the railway. That portion is a payment from the Government to the railway.

Hon. Mr. STEVENS: I have not made myself clear. That portion which is not included in the 20 per cent reduction?

Hon. Mr. DUNNING: Is a payment from the Crown to the railway. That was the principle adopted.

Hon. Mr. STEVENS: It should be shown in this statement.

Sir HENRY THORNTON: What Mr. Stevens means is that prior to the existence of the so-called Eastern lines, the lines in that territory were operated at a loss. Now, under present conditions, he says that loss, plus the loss due to a reduction in freight rates, is all put in one sum, and is separated from the accounts of the National Railway as a whole.

Hon. Mr. STEVENS: Exactly.

Major BELL (Deputy Minister): That appears in the Departmental estimates, divided; showing the totals of the separate amounts.

Sir HENRY THORNTON: Without discussing whether that is correct or not, right or wrong, in preparing our reports we are simply following the legislation which has been passed, and therefore, any argument with respect to that, is an argument as between this Committee and Parliament, and not between the Committee and the Railway. We are simply carrying out the law as it has been passed.

Hon. Mr. STEVENS: As I understand the law, and I am speaking from memory, it said that you must set up a separate account. That was for the purpose of ascertaining what the amount to be paid under the Maritime Freight Rates Statute should be. I appreciate that, but that does not mean that it should not be placed in the composite statement. My opinion is that there should be shown in the main statement the total loss, and the contribution should be shown as an item of special revenue. Then the net amount would be reflected in the main statement.

Sir HENRY THORNTON: The policy we are following now and the reason it is being followed is in order to avoid very complicated and difficult accounting.

Hon. Mr. STEVENS: Frankly, Sir Henry, with all due deference, I cannot see the difficulty; not in the preparation of your statement. I can quite see the necessity of keeping your books of account separate, but in reflecting in your statement you take into consideration the full result of all your books.

Sir HENRY THORNTON: We would have to estimate each year what the loss would have been had a reduction in freight rates not been made.

Hon. Mr. DUNNING: I think I see Mr. Stevens' point now, and I do not know why it should not be done if it would make it any better. It would mean that you would show as revenue, in your general statement, the amount received from the Government, under the provision of the Maritime Freight Rates' Act, but the net result would be exactly the same as it is now.

Hon. Mr. STEVENS: No.

Hon. Mr. DUNNING: There would be no difference, because we come out of the Eastern lines absolutely clear.

Hon. Mr. STEVENS: But, Mr. Minister,—it may be my failure to make the thing clear,—but here is the point. You have two classes of losses, we will say, in the Maritime provinces.

Hon. Mr. DUNNING: If you are coming back to the justification under the law, yes.

Hon. Mr. STEVENS: One is the normal loss, and the other is a statutory loss. Parliament has voted money for the statutory loss. That would be one off-setting the other. Parliament has provided for the off-setting of the statutory loss; one would cancel the other on your revenue and expenditure; but your normal loss is not included as it would in previous years have been included in your main statement.

Hon. Mr. DUNNING: That is quite right.

Hon. Mr. STEVENS: And it should be included in there.

Sir HENRY THORNTON: It might clear things if I read the law. "For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenue and expenses of the Eastern lines including the reductions herein authorized, which shall be borne by the Eastern lines shall be kept separately from all other accounts respecting the construction, operation and management of the Canadian National Railways. In the event of any deficit occurring in any railway fiscal year in respect of the Eastern lines, the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament, for or on behalf of the Canadian National Railways, at the first session of Parliament, following the close of each fiscal year."

Hon. Mr. STEVENS: I do not object to that at all. By all means, keep your accounts separate in accordance with that Statute; but after all, this set of accounts which you have in this red book (indicating) is supposed to reflect to the country the effect of the Canadian National Railway operations whether in the United States or Canada, or wherever it is. My point then is that in this account should be included, separate of course, and kept in a specified item, not only the statutory loss, but the normal loss of the Eastern lines.

Hon. Mr. DUNNING: But you did not listen to that Statute, Mr. Stevens?

Hon. Mr. STEVENS: I did listen to it.

Hon. Mr. DUNNING: No, that Statute authorizes the deficit on the Eastern lines to be treated in that way.

Hon. Mr. STEVENS: I know, in the estimates, in a separate item, and if you put it in your statement, as a separate item, you are absolutely complying with the law. You might say, for instance, that the British Columbia Northern, the Canadian Northern lines should be kept separately. I just mention that as a shot in the dark, and they should not be included in here. There is no difficulty, from an accounting standpoint, of including that in the statement.

Hon. Mr. DUNNING: The only difference between us is that from my point of view, the accounting result would be the same. If the law is complied with, the contribution from the country would be included as revenue, the contribution being composed of two items in accordance with the law; one the item due



to the 20 per cent reduction on Eastern lines, and the other, the remaining portion of the deficit on the Eastern lines. That is what the law says.

Hon. Mr. STEVENS: No, only that portion would be included as revenue which was statutory.

Hon. Mr. DUNNING: It is all statutory.

Mr. CANTLEY: Mr. Stevens wants a consolidated account, which he says this is not. Is not that it?

Hon. Mr. DUNNING: If that is what he wants, there is no difficulty in providing it.

The ACTING CHAIRMAN: As I understand it, Mr. Stevens' interpretation of the Statute is not quite the same as the Minister's. That is the difficulty there.

Hon. Mr. STEVENS: There is a difficulty in our interpretation.

Sir HENRY THORNTON: Shall I read the law again? (Reading).

For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenues and expenses of the Eastern lines including the reductions herein authorized, which shall be borne by the Eastern lines, shall be kept separately from all other accounts respecting the construction, operation and management of the Canadian National Railways. In the event of any deficit occurring in any railway fiscal year, in respect of the Eastern lines, the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament for or on behalf of the Canadian National Railways, at the first session of Parliament following the close of each fiscal year.

It provides for separate accounts, and that is separate.

Hon. Mr. STEVENS: That is so, and there is no objection to that.

Hon. Mr. DUNNING: That is the general deficit.

Hon. Mr. STEVENS: No, you are mixing two things. You are mixing the form of keeping your accounts, and the form of making an annual statement to your shareholders. There is a vast difference between the two. The statement presented to the shareholders should reflect all the operations and the combined operations of your company or companies. It does not make a particle of difference whether they are kept in one or forty sets of books.

Hon. Mr. DUNNING: Agreed so far.

Hon. Mr. STEVENS: Now, my point is this: In presenting to Parliament, and therefore to the country, two reports, one representing the Eastern lines, and one representing the system as a whole, you are giving to the country a fair and true picture of the whole story.

Hon. Mr. DUNNING: You agree that, if the returns were put together, it would be?

Hon. Mr. STEVENS: Yes, I say that the result of yellow book, and the result of the Central Vermont ought to be included in the main statement presented to the Committee. Those are my contentions in a nutshell.

Mr. CANTLEY: And call it a consolidated annual report?

Hon. Mr. STEVENS: Exactly.

The Acting CHAIRMAN: Leaving that aside, what would they do with respect to the definite instruction in the Statute to keep them separate?

Hon. Mr. STEVENS: All that does is to tell them to keep their accounts separate, not to present it to Parliament separately.

The Acting CHAIRMAN: I was of your opinion first, because I did not understand the Statute. But, it covers the normal deficit, as you call it, and the

deficit due to the reduction in rates. It covers both. Then, it does not make any difference. It does not make the slightest difference then.

Hon. Mr. STEVENS: All that provision means is to keep your books and accounts separate so that you can arrive at a clear picture of the operation of the railway under this question. Then, the Statute says any deficit that arises, whether statutory or normal shall be shown in these estimates in a separate item, instead of being included in some other item as some of these are grouped.

Hon. Mr. DUNNING: There is necessarily a difference. You would not for a moment approve of a deficit being included in an item of this character because this represents borrowed money. The deficit on the Eastern lines is included in the estimates of the Department of Railways and Canals, and is a payment from the Department to the railways.

Hon. Mr. STEVENS: That is all right. You have an estimate specifying to Parliament what it is. But, it does not say it shall not be included in a composite statement of the company.

Hon. Mr. DUNNING: No, I have no objection to that. The only difference between us is as to what the result would be. I say the result would be exactly the same. The final summation in the red book would not be the same as in the yellow book. I am speaking of net income, of course.

Mr. COOPER: It would undoubtedly change the operating accounts?

Hon. Mr. STEVENS: Certainly, it would.

Hon. Mr. DUNNING: In what way?

Mr. COOPER: The deficit of the Eastern lines including the statutory reduction, would be included in the net operating revenue of the National system.

Hon. Mr. DUNNING: Then the item from the Government would come in as income to off-set it.

Mr. COOPER: Yes, the part other than the statutory. The statutory you argue, should be a revenue?

Hon. Mr. STEVENS: Exactly

Mr. COOPER: But, the balance of the contribution would be an income credit, excluded as a credit, from operating.

Hon. Mr. DUNNING: But included as a credit to income.

Mr. COOPER: Yes.

Hon. Mr. DUNNING: That is an accounting mystery to me. All I know is that the net result is that the Government pays for the whole deficit on the Eastern lines, as a contribution to the Canadian National. That is the principle of the law.

The Acting CHAIRMAN: There is no way of getting it back. It is not a loss, it is a straight contribution.

Hon. Mr. STEVENS: I am not talking about getting it back, or paying for it. That is done by the Government. But, it shows a different picture, that is my point.

Mr. McLEAN (Melfort): Only in the event of there being a surplus on the Eastern lines, with the actual earnings, and the contribution of the Government, and the 20 per cent reduction. Would it make any difference if included in the red book? If there should be a deficit in addition to the 20 per cent, then there is nothing to carry it forward to the red book.

Hon. Mr. DUNNING: Do you see any objection, Mr. Cooper, from an accounting point of view, in another year, to including the red book the summation of results on the Eastern lines?

The Acting CHAIRMAN: You would include two items: Amount of normal deficit, so much; amount of deficit under the Statute, so much; and then an-



other item, amount received from the Dominion Government to recoup, so much.

Sir HENRY THORNTON: Then what would happen is that you would find certain individuals and certain interests that may be unfriendly, say; "Look at the awful performance that the Canadian National has made." They will include all the deficits of the Eastern lines, and charge that up to us.

Hon. Mr. STEVENS: As long as you gave your revenue account credit for the statutory amount, that you receive under the Statute, all you would reflect then in your operating statement would be your normal loss on the Eastern lines, which should be reflected there in any case.

Sir HENRY THORNTON: But the Statute specifically reads to the contrary. I am not arguing whether it is wise or not, but the Statute specifically says all the deficits on the Eastern lines are to be kept separately, and brought in as a separate estimate.

Hon. Mr. STEVENS: That does not mean that it should be excluded from the statements of this company.

Sir HENRY THORNTON: It is not. Both books come before the shareholders.

Hon. Mr. DUNNING: There is not a question of principle, but just one of accounting.

The Acting CHAIRMAN: What do you say about the meaning of this, "kept separately from all other accounts respecting construction, operation or management of the Canadian National Railways?"

Hon. Mr. STEVENS: That refers to the accounting, and I agree with it to the letter.

Sir HENRY THORNTON: You cannot return them the amount.

The Acting CHAIRMAN: You are right in that.

Hon. Mr. STEVENS: It is there for accounting purposes.

The Acting CHAIRMAN: We have wandered far afield from the Section.

Hon. Mr. DUNNING: The important point here, and if we are wrong, I think the Canadian National officers will take the view of this Committee as to the manner of presenting the statement for another year; I am personally satisfied that under the law, the presentation of the accounts to us could be in either of the forms suggested, but I do submit that the principle of the law, the Maritime Freight Rates' Act, was, that this Dominion recognized that the State, apart altogether from its general railway matters, had a definite obligation towards that part of Canada with respect to transportation; in fact, it has always been since the Government lines were turned over to the National for operation—it has always been a very grave question as to whether the National Railways were not entitled to receive each year by way of a separate vote, the amount of the deficit on the Government lines which were handed over to them to operate. After all, they are not a part of the Canadian National system as yet, although they may be. Now, that was not done until this year. Then the year after the Maritime Rates' Act, we said we had a Dominion National obligation towards this part of the country; we do not expect the Canadian National to be burdened with deficits with respect to it, we will deal with that part of the system as a national charge, and we will pay it to the Canadian National so that the Canadian National as a railway organization, will not be burdened with something, which, because of the nature of construction, and all that attended it, and the obligations of Confederation, and so on, is not strictly speaking a railway matter, and should not be handled in the same manner as the rest of the system. Now, that was thoroughly gone into in Parliament last year, and we have adopted that principle, that we will have

the Canadian National operating this as part of the system, but to the extent that it loses money in doing so the State will contribute to the revenue of the Canadian National to offset that loss.

Hon. Mr. STEVENS: That is for the statutory reason.

Hon. Mr. DUNNING: No, for the whole thing. There was no question of that in the House last year.

Sir EUGENE Fiset: I think I will go further, Mr. Chairman. Even if we accept Mr. Stevens' suggestion, you will still be compelled to prepare a special report as far as the Eastern lines are concerned, in order to comply with the provisions of the law.

Mr. CANTLEY: Mr. Chairman, the exposition of the Act of last year as outlined by the Minister, I think, is quite correct, but I may say this: I did not recognize that at the time the Act was passed. I thought it only dealt with the deficit that would arise through the five per cent.

The Acting CHAIRMAN: I thought so too.

Hon. Mr. DUNNING: If you will refer to Hansard, you will see that I specially stressed that as a principle.

Mr. CANTLEY: That may be. Now, allow me to go back to page 2 and the second paragraph.

Mr. STEWART (Leeds): My idea as to Mr. Stevens' proposition is that when you come to present to Parliament a report you should include the whole operation; a summary, as it were; an annex, an appendix, something that sets out the whole situation with regard to the Eastern lines, so that we know the net result of the operation.

Sir HENRY THORNTON: I should object seriously to that, because it creates an unfair operating result as far as the Canadian National is concerned. Certain reductions in freight rates were made with respect to the Maritimes and a certain Statute was passed which prescribed how the account shall be kept. If we are obliged to include in our operating account the losses which are placed upon us through the operation of the Eastern lines, it makes a still worse picture; it does not accurately reflect the situation and will certainly very seriously affect the feelings that a great many of us have with respect to what we are trying to accomplish. I think it is unjust and unfair to the National Railway system.

Hon. Mr. STEVENS: Sir Henry, up until July last, you included in your statement, the full picture of the Eastern lines?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: From July last—

Hon. Mr. DUNNING: Always under protest.

Hon. Mr. STEVENS: Mr. Minister, will you please permit me to complete my statement?

Hon. Mr. DUNNING: But always under protest. I should say that in fairness.

Hon. Mr. STEVENS: Frankly, I cannot understand—I have made my statement and I cannot understand the contention at all. I do not agree with this clause under these circumstances. I have tried to make myself clear, and this is the first time I have had occasion to sharply differ from Sir Henry, but I do. I shall say no more. I have tried to make myself clear, and it is impossible.

Sir HENRY THORNTON: Please do not understand that I in any way resent any difference of opinion. We may have our differences of opinion, and they may be honest differences, but I want to assure Mr. Stevens that I have heard all that he has to say with the utmost courtesy, and everything of that sort.



Hon. Mr. STEVENS: I was referring to the Minister's interjection.

Hon. Mr. DUNNING: I am sorry if in any way I have offended Mr. Stevens.

Hon. Mr. STEVENS: You are not offending, but Good Heavens why cannot you let a person put a question to the President of the Railway without cutting across it so that it is an unintelligible question when it gets on the record.

Mr. McLEAN (Melfort): I do not think that is a fair statement at all.

Hon. Mr. DUNNING: Then I apologize to Mr. Stevens abjectly, and I ask him to be kindly guided by his own advice. Now, I apologize abjectly, and will not say another word.

The Acting CHAIRMAN: Mr. Stevens was about to discuss this matter with Sir Henry Thornton, and I will be very much obliged if he will continue, and I will see that he is not interrupted.

Hon. Mr. STEVENS: The question I was trying to ask Sir Henry Thornton was this: Previous to July, 1927, the Eastern Lines' accounts, operating and such like, were reflected in a composite statement presented to Parliament. In July, 1927, the Maritime Freight Rates' Act came into operation. From that date, separate accounts were kept?

Sir HENRY THORNTON: Right.

Hon. Mr. STEVENS: In the period previous to 1927, such deficits as occurred appeared in a composite view of the main statement. Now then, I ask this: From July, 1927; to the end of the year, the Maritime Freight Rates' Act, the statutory rates applied, causing a certain reduction in rates, provided for by an equal amount to meet the loss in the way of a contribution from the Crown. Had you included in a composite statement the statutory loss, with a corresponding item of statutory revenue, or a revenue equal to the statutory loss, and the normal loss, your present statement would have shown an added loss to what it does at the present time. That is true, is it not?

Sir HENRY THORNTON: Undoubtedly.

Hon. Mr. STEVENS: Therefore, my contention is that the present composite statement does not reflect the correct view of the operation of the Canadian National Railways in the same manner as it did before July, 1927, and prior to the operation of the Maritime Freight Rates' Statute?

Sir HENRY THORNTON: That is true, with respect to that point, but may I just say this on the other side. In putting in our accounts as they have been presented this year, we are following the instructions of Parliament. I do not question whether that is right or wrong, but I do say that in the presentation of our accounts we are proceeding as instructed by law.

Hon. Mr. STEVENS: I am making a statement now, Mr. Chairman, rather than putting a question. It is this: that the injunctions imposed upon you in the Statute apply to the accounting, and do not apply to the presentation of the annual statement.

Sir HENRY THORNTON: I do not know that I could discriminate between the two, Mr. Stevens. We must present the report in accordance with the instructions we receive. We cannot present one kind of report and then another kind of accounts. This law has been read two or three times. I do not think I need read it again.

Mr. CANTLEY: It is a question of interpretation of the law.

Hon. Mr. STEVENS: I think we can get closer if I say that I agree with you wholly that it imposes upon you a duty to keep the accounts separate, for the purpose of ascertaining what the statutory loss is.

Sir HENRY THORNTON: Then maybe I can make a shortcut that will get us all straight. Would you feel satisfied if these two sets of figures in the red and yellow books were included in the same binding?



Hon. Mr. STEVENS: No, it would not make a bit of difference. That would be only one plaything instead of two. If the figures appearing in the yellow binding, of the Eastern lines, are included in whatever form the accountants may desire in the total figures of the main statement before the final balance is struck, that is what I ask, and what I contend should be done.

Sir HENRY THORNTON: Well, I expect we could argue that indefinitely, without coming to any conclusion. The whole thing turns upon whether you say this Statute instructs with respect to the preparation of the accounts and does or does not instruct with respect to the presentation of the report. That is the only difference, as I see it, between us, is it not?

Hon. Mr. STEVENS: No, I am sorry I cannot agree with you, Sir Henry. I think that only refers to the keeping of accounts separate as far as account books are concerned, for what purpose? To ascertain how much the Government of Canada is to pay in relation to the losses set up by the enactment of that Statute. That is, of the accounting injunction.

Sir HENRY THORNTON: Then, who do you think should determine how the report should be presented?

Hon. Mr. STEVENS: I think the President, and Board of Directors of the Railway will determine that. It is then a question of whether we will accept it.

Sir HENRY THORNTON: Then that cuts it down to a definite point. The directors and myself concluded that that was the best way to do it. If this Committee differs, that is for the Committee to say.

Hon. Mr. STEVENS: Then we come to this: I, from my standpoint, could not agree to the clause now under consideration on page 3. That is the point in my discussion.

Sir EUGENE Fiset: Mr. Stevens, is not your object to ascertain if the railway is complying with the clause contained in the Statute?

Hon. Mr. STEVENS: No, I am concerned in whether the composite account reflects the Railway returns of this whole system.

Sir EUGENE Fiset: Therefore, you do not take into consideration that in the estimates submitted by the Minister to this Committee, he takes into account not only the deficit on account of freight rates as far as the Canadian National is concerned, but also the other railways?

Hon. Mr. STEVENS: No.

Sir HENRY THORNTON: Mr. Stevens really I think is quite right in saying this, that we are relieving ourselves of a certain deficit with respect to the Eastern lines which, prior to the passage of the Maritime Freight Rates Act, we bore. That is correct?

Hon. Mr. STEVENS: Quite.

Sir HENRY THORNTON: But I know of no reason why we should not accept our good luck along with our bad luck. We always have to stand the bad luck, and I do not see any reason, if Parliament passes an Act which relieves us of that deficit, why we should not accept that relief.

Hon. Mr. STEVENS: Sir Henry, what is to hinder the management of the road now, or in the future, from treating some other operation in the same way that you have treated the operations of the Eastern lines and the Central Vermont? After all, what is the object of this Committee, and what is the object of Parliament scrutinizing these accounts? One object only, or two objects, shall we say; one is to get an idea of how we are going along with our huge investment. Secondly, to bring pressure to bear upon the President, the directors and the management to get out of them the best that is in them.

Sir HENRY THORNTON: True.



Hon. Mr. STEVENS: That I think, might be stated as to another: If we are to have by one method or the other, bad luck or bad territory deleted, and have presented to us a view which after all goes out as the whole view, whether it is accurately so or not, to the people, deleting from it these other two elements, then the people are not going to get a correct idea of how their big investment is working out. Now, I wish to say at once, I am not saying this with the idea of reflecting on the management. After all, the management surely are going to be in a better position if they can keep the people posted on exactly the correct result of their operation.

Sir HENRY THORNTON: One of the reasons why this was presented separately—and I certainly thought, speaking personally, that it would present a more forceful picture if presented separately than if they were presented together—is that the public would see exactly from this yellow report (indicating) what the Maritime Freight Rates' Act is costing, and what the operation of the Eastern lines represents, and it would be a more eloquent expression of the situation, than if it were generally buried in the composite.

Hon. Mr. STEVENS: I would not say generally buried in it by any means. I would put it in the main account, in a distinct form. My friend Mr. Cooper could put it in, I know. He knows exactly how it should be put in; kept separate in its details, but put in the main result, indicating where that loss is, and what that loss is, and including it in the main statement. I also have the same observation to make regarding the Central Vermont, because, although the Central Vermont is now in the hands of a receiver, I still believe that we, as shareholders in this company, with \$33,000,000 invested in the Central Vermont, are entitled to have shown in our returns just whether we have got a loss or a profit, or what our prospects are instead of deleting that as well.

Sir HENRY THORNTON: By the time the next report is made, the Central Vermont will be included as usual in the Annual Report of the Canadian National Railways, because by that time the receivership will almost certainly have been lifted.

Mr. McLEAN: To my mind, the whole trouble seems to be that Mr. Stevens is not going far enough in his argument regarding the legislation passed last year. Parliament and the country said "we are not only willing to pay the deficit due to the 20 per cent reduction in the Maritime Rates, but also on account of certain conditions in those lines and in the country, we are going further, and we will recoup to the National Railways the total deficit from that line." Now, as I understand Mr. Stevens' argument, it could be met to some extent if the deficits were kept in two separate accounts in the yellow book. That is, the deficit due to the 20 per cent reduction, and the deficit due to conditions outside of that entirely.

Sir HENRY THORNTON: They are so kept now.

Mr. McLEAN: That shows to the country the loss on the Eastern lines. Then there is nothing further to carry over to the red book because Parliament has distinctly said they are going to take that off the shoulders of the National Railways, and off the territory served by the Eastern lines, on account, not of some sentimental or charitable feeling towards that territory, but on account of conditions that have existed for a number of years, and have been protested against for a number of years. If Parliament has taken that attitude, I do not think it is for us to question it in this Committee. It was not questioned last year.

Hon. Mr. STEVENS: It was not in existence last year. It all came into existence in July, 1927.



Mr. McLEAN: No, the legislation was passed last year, and Parliament did not object at the time. In fact, Parliament passed it. Consequently, there is nothing to carry forward from the yellow book to the general account, because Parliament has made it a distinct property, and paid for it in another manner absolutely. Until there comes a time when there is a surplus to carry forward, there is nothing to show. And, there is no reason why the other portions of the line should be confused by carrying forward something that Parliament is dealing with as a separate property.

Sir HENRY THORNTON: May I say this, Mr. Chairman. I think this discussion has been illuminating, and a good many points have been brought out, which perhaps were not fully appreciated before. Certainly, as far as the railway is concerned, I am very grateful to Mr. Stevens for the points to which he has called attention. I think we can discuss this more or less indefinitely here, without reaching any very exact conclusion, but I think we can meet the situation by this statement: That so far as the railway is concerned, I will take into full consideration all that Mr. Stevens and other members of the Committee have said. I would like to think about this, and see if we cannot devise some way which will give to the people of Canada the complete exposition which Mr. Stevens wants, without prejudicing the standing and the financial performance of the railway. But, it is a pretty difficult thing to decide right here what we should do. I would like first to think about it, and in consultation with him, and Mr. Harris, and yourself (meaning the Chairman) and others, see if we cannot hit upon some way of meeting what everybody wants. Certainly, we have no desire to conceal anything. We want to get as fair a picture as we can. It is a hard thing to settle in a few minutes' conversation, but I do feel that there is much merit in what has been said, and we want to meet the views of those who have so expressed themselves.

Hon. Mr. DUNNING: Mr. Chairman, there is just a word or two I want to say with regard to this matter. As I have gathered the feeling of the Committee, in previous years, it has always been that we should, as far as possible, put this property on a fair basis in relation to those who are working the property for us. In order that they might have the incentive of having a fair load, and not an unfair load. It was because of that attitude on the part of the Committee in the comparatively small number of years that I have been associated with it, that in proposing the Maritime Rates legislation of last year, the Government decided to take the whole load of Maritime Province deficits off the shoulders of the railway operations. In effect, what we are doing is precisely what this Committee has been striving for in connection with other matters, notably with respect to the size of the capital account of the road; we are trying to give to those who are operating it a fair chance, and nobody dreams that the operation of the Maritime lines can be put upon a profitable basis of operation, apart altogether from the question of the twenty per cent. Now, if Sir Henry for he management withdraws from the previous position of desiring to have the officers and employees given a fair chance—as you know, it was representations of that kind which were the basis of the Maritime Rates Act, the position of course; but you would be going back to the previous position which was, I think, properly complained about for several years prior to this at least in relation to the deficit portion of it, the Government might reconsider adjustment which we are now discussing.

Sir HENRY THORNTON: I would not think, Mr. Dunning, of changing the character of the accounting, or anything of that sort, but I just had in my mind, whether on further and more mature reflection, it would not be possible to find some way of presenting these figures which would be satisfactory to every one, including of course, ourselves.



Hon. Mr. DUNNING: With respect to the payments by the Government as designed by the Maritime Freight Rates' Act, they were designed to give the Canadian National Railways a chance to make a fair showing, having regard to the conditions from one end of the country to the other, and taking into account the special conditions applicable to this section of the country. Now, naturally, as Minister, and speaking for the Minister of Finance, he would be quite relieved if this Committee desired that the special provision under the Maritime Freight Rates' Act, with respect to deficits on Eastern lines, were eliminated, and did not involve a direct charge on the revenue of the country every year, but I still think the principle of the Maritime Rates' Act is sound, and I still think that it presents a more accurate picture of what the Maritime lines represent than could be presented to the shareholders throughout Canada in any other way. Each year, by virtue of that Statute, there is presented to Parliament, separate estimates, two separate amounts for the Eastern lines; one amount showing the deficit attributable to the 20 per cent reduction, the other amount showing the balance of the deficit on Eastern lines, both of which combined represent, under that law, a definite contribution by the Government, to the revenues of the Canadian National Railway, in order that that part of the system which has such a peculiar problem of its own may be viewed entirely separately from the balance of the system, and should not represent a handicap upon the natural aspirations of the men running the system to make a good showing on the basis of standard railway operation.

Hon. Mr. STEVENS: Well, all I have got to say is, I do not want the Minister to leave the impression that what I am seeking to do is to embarrass the officers of the company, simply by asking this question. I am not going to argue the point any further, but I do resent that suggestion.

Hon. Mr. DUNNING: Mr. Chairman, I made no such suggestion. I dealt with the subject on the basis of principle.

Hon. Mr. STEVENS: It was the whole burden of your remarks, Mr. Minister.

Hon. Mr. DUNNING: I wonder if Mr. Stevens would now apply his own rule, and let me finish without interruption.

Hon. Mr. STEVENS: Go ahead.

Hon. Mr. DUNNING: The whole point that I make is that the purpose of this legislation originally, and the application we have of it before us to-day is to relieve the system as a whole of an unfair burden, a burden, which, from the point of view of the Confederation Compact was a burden of Canada, and apart from railway operation by a company or a corporation, and we were there as I told Parliament last year, proposing to recognize the operation in that regard. I did not intend to reflect at all on Mr. Stevens' motives.

Hon. Mr. STEVENS: The point I am getting at in the record is this; I take it from the Minister's remarks, that the suggestions I have made will be taken as indicating a desire to hamper the authorities in carrying out—

Hon. Mr. DUNNING: No, no.

Hon. Mr. STEVENS:—or giving them a fair chance—to use his own language—of making a success of the road.

Sir HENRY THORNTON: I did not interpret them in that way.

Hon. Mr. STEVENS: Long before the Minister came here, the National Railways had not one more anxious to see them succeed than I was and am, and there is not one from the President down but will agree with that statement. On the other hand I am not receding from the position I have taken, that the accounts as presented do not reflect accurately and fairly to the people of the country who are the owners of the road, the accurate situation. That is the position I take, and under these circumstances, I certainly will not agree with the clause which is before the Committee.

Sir EUGENE Fiset: Mr. Chairman, even if the Canadian National Railways comply with Mr. Stevens' wishes and the Departmental point of view, and in view of the fact that the Railway Department has to provide in the Annual Estimates for what is necessary to comply with it, you will have then to give a separate statement of the operation of the Eastern section? I ask for information, and I think you will have to prepare both reports if that is decided upon.

Sir HENRY THORNTON: I thought we had to prepare two separate reports. However, that is another matter. But, let me hasten to say to Mr. Stevens that as far as the Railway is concerned, certainly we have always regarded him as a friend of the property, and I have not the slightest feeling about anything that he has said this morning; not the slightest. I want to make that quite clear.

Mr. McLEAN: Mr. Stevens, in view of the very frank discussion we have had on adopting a report, at a session not including evidence, would you be in favour of deleting from the record the discussion of this clause?

Hon. Mr. STEVENS: Why?

Mr. McLEAN: You seem to think that possibly reflections were intended during the discussion.

Hon. Mr. STEVENS: I do not see why it should be deleted from the record.

Mr. McLEAN: It does not include matters of evidence. Other committees, in discussing the adoption of a report, frankly, as we have done this morning, do not keep a record. I sat on a committee preparing a report, and we sat in camera, and kept no report. I do not see that there is much value in it.

Hon. Mr. STEVENS: I do not care what you do.

Mr. McLEAN: Would you support me in the request that the discussion be deleted?

Hon. Mr. STEVENS: No, I would not. That does not hinder you from asking, though.

Mr. McLEAN: I would not like to ask that unless I had your support.

Mr. CANTLEY: In regard to the second paragraph on page 2, the word "ending" at the end of the third line, and again at the beginning of the last line. I suggest that word should be "ended"; past tense instead of future tense.

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: Take the word "modify," two lines before that. Should not that word be "incomplete form" instead of "modified form"? Would it not be more correct to say incomplete form than modified form?

Mr. HENRY: Last year, of course, the Central Vermont was included for the full year. It is just a question whether that was strictly proper or not, as we only own 67 per cent of the stock.

Mr. CANTLEY: But still the accounts are incomplete.

Mr. HENRY: It was shown separately last year.

Mr. CANTLEY: I may be wrong.

Mr. HENRY: And it is modified to the extent of not being shown this year in the accounts, on account of the receivership.

Mr. CANTLEY: Take the next paragraph. "The evidence adduced from the officers of the railway disclosed the fact that the chief reasons for the less favourable showing were a reduction in freight rates and an increase in expense due to increase in wages and because of somewhat larger expenditures on maintenance of way and structures." I had the idea that the greatest element was the increase in wages, rather than the reduction in rates.

Sir HENRY THORNTON: There were really two major things, the increase in wages and delayed crop movement.



Mr. CANTLEY: But the increase in wages was the larger element?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Then I would emphasize that by putting it first.

Sir HENRY THORNTON: I think that is a good suggestion. Just reverse the order.

The CHAIRMAN: The next paragraph is, "Your Committee is gratified to observe the continued improvement in the earnings of the Company's hotels—

Mr. JELLIFF: Could we not act on that first clause on page 3? There is only a question of policy, as to the presentation of the general account. The other question that Mr. Stevens brought up was a question of policy.

Sir HENRY THORNTON: As a matter of fact, I think what Mr. Stevens was talking about related more to next year than to this year, because this year's accounts are in and closed. They have been presented in a certain form and they cannot be changed.

Mr. McLEAN (Melfort): And, further, they have to be dealt with according to the statute, which may be interpreted according to the opinion of the officers.

Hon. Mr. DUNNING: There is no question of the interpretation of the statute at all.

Sir HENRY THORNTON: I do not think so.

Mr. McLEAN (Melfort): The interpretation of the statute should certainly not come from this Committee.

Hon. Mr. DUNNING: I would suggest, if the Committee desires, to draw attention to the fact that there is a separate statement for the Eastern Lines.

Sir HENRY THORNTON: You had a suggestion to make, Mr. Henry?

Mr. HENRY: (Reads):

Your Committee is also satisfied, from the evidence given, that the accounts for the year 1927, which show the operations of the Eastern Lines separately for the last six months thereafter, as presented are in accordance with the prescribed practice of railway accounting, and reflect accurately the revenues and expenditures made during the year, as well as the additions to the capital account during that period.

Hon. Mr. DUNNING: Would that not come in better farther down than where you have it? After the word "and" in the third line put in, "and together with the separate statements respecting Eastern Lines reflect accurately."

Mr. HENRY: I think perhaps that would be better.

Sir EUGENE Fiset: Would it not be better to say, "and taking into consideration"? It seems to me that you are reflecting Mr. Stevens' argument.

Hon. Mr. DUNNING: I am not concerned with reflecting his argument. I want to get at the facts in the report, whatever they are.

Mr. McLEAN (Melfort): I think the Minister's words are the simplest and most concise.

Hon. Mr. DUNNING: Read it all.

Mr. HENRY (Reads):

Your Committee is also satisfied, from the evidence given, that the accounts for the year 1927, as presented, are in accordance with the prescribed practice in railway accounting, and, together with the separate statement respecting the Eastern Lines, reflect accurately the revenues received and the expenditures made during the year, as well as additions to the capital during the year.

The CHAIRMAN: (Reads).

Your Committee is gratified to observe the continued improvement in the earnings of the Company's hotels and to learn from the officers of the Company of the indirect benefit resulting from the operation of the hotel system.

Your Committee has already, in its Third Report, referred to its consideration of Bill 204, "An Act respecting the Toronto Terminals Railway Company."

Your Committee notes that the requirements for the present year, exclusive of the Eastern Lines, amount to \$39,000,000, as compared with the requirements asked for last year of \$22,500,000 for the nine months ending December 31, 1927, including the Eastern Line. The chief reasons for the increase are the twelve months' period as compared with the nine months' of last year, increased interest, and a larger program of additions and betterments, which was examined by your Committee and found to be reasonable.

From the evidence given, your Committee is of the opinion that the amount of \$39,000,000 is necessary for the purposes of the Company during the year 1928, and should be passed by the House.

That is all for the Canadian National Railways. The next the Canadian Government Merchant Marine. (Reads):

Your Committee has had under consideration Item 409 of the estimates which provides for a loan of \$758,000 to the Canadian Government Merchant Marine Limited, and has, in the course of its deliberations, examined the operations for the year ending December 31, 1927. Your Committee notes that the results of the operations have not been quite as favourable as those for the previous year, due to a highly competitive situation, which resulted in a reduction of freight rates in certain directions, with a resultant reduction in the gross revenue of the Company.

Your Committee notes that the amount asked for, viz: \$758,000, is to be used to the extent of \$750,000 for contemplated deficits and \$8,000 for betterments, and is of the opinion that this amount is necessary and should be granted by the House.

Mr. CANTLEY: There is just one point in connection with that, as I referred to earlier in the meetings of the Committee. I think it has been shown that vessels under 8,000 tons capacity cannot be operated profitably, and I feel that the Government should sell all those vessels under 8,000 tons.

Sir HENRY THORNTON: If it meets the judgment of the Committee, I should say that that suggestion might be left to our judgment to review the situation, and see how soon we could get rid of those boats, or what we ought to do in connection with your suggestion. I think it would be unwise that that should appear as a mandate to the officers of the Company. No doubt there is much truth in what Colonel Cantley says, that you cannot operate a small vessel, under present marine conditions profitably, but I think it would be a mistake to put the Merchant Marine officers under a mandate to do that immediately.

Hon. Mr. DUNNING: Would you undertake to review the whole situation?

Sir HENRY THORNTON: I do not know just how it would work out.

Mr. CANTLEY: I suppose we could change that and say that the Committee further recommends the consideration by the management?

Mr. JENKINS: What tonnage are the boats operating from Montreal to St. John, N.B.?

Mr. HENRY: One steamer of 2,800 tons.



Mr. CANTLEY: That is a special service and I think it is worth while. The other boats that are in the general trade cannot be operated profitably. I have operated a fleet of 75,000 to 100,000 tons of shipping for twenty years, and I have had boats in all ports of the world. You had five of them laid up last winter at Halifax for various purposes, and they are eating their heads of. Let us wipe that off and get clear of that obligation. Eight thousand and 10,000 ton boats do perform a service for the trade of this country, and, to a certain extent, to the railway, but boats below 8,000 tons cannot and do not do any good to us at all.

Mr. McLEAN (Melfort): Would it be better to suggest that the management take under consideration the policy of getting rid of the least profitable boats in the service, with a view to retaining only those that are able to compete in an up-to-date manner?

Mr. JENKINS: If we operated the railways in the same way, we would cut off the whole eastern lines.

Mr. CANTLEY: You cannot do that, as you have a contract with the Maritime Provinces.

Mr. JENKINS: Our boats are feeding the railway system to a certain extent, and also developing trade, and I think it would be a great mistake to cut off some of those smaller boats.

Sir HENRY THORNTON: I think Colonel Cantley means that we should review the Canadian Government Merchant Marine and see if we cannot formulate some policy to bring in greater efficiency. That may mean the scrapping of some of the smaller boats; it may mean building some new boats, or it may mean one of several things, but we ought to review the Canadian Government Merchant Marine from the point of view of deciding what our policy would be with respect to the whole thing.

Mr. JENKINS: We surely have confidence that the management are doing that now?

Mr. CANTLEY: I am content to let it go on the understanding that the management will take up that question, and I hope they will deal with it before we are called again next year.

Hon. Mr. DUNNING: There is just the report on the third paragraph on page 2. The only thing that is required is just the question of turning it tail first.

The CHAIRMAN: The substance is the same.

Mr. McLEAN (Melfort): That has been recorded in the report of this meeting.

Mr. CANTLEY: There is just one point further with regard to the discussion that took place with the hon. member from Vancouver. I think there is something in his contention, and I think that members of the Board here are likely to accede to his point. I fancy when you present your accounts next year there will be a closer approximation.

Sir HENRY THORNTON: I still maintain that, in accordance with the reading of the statute as I understand it, the reports this year have been presented as they should be. I am the last person in the world to refuse to look at a suggestion, and if there is any way in which, on more mature thought, we can preserve the character of our accounts, and present a true picture, I am perfectly willing to do anything, provided, of course, that we do not sacrifice anything. It is something that would be exceedingly difficult to settle in an argument here in this room this morning. You might talk for a couple of weeks on it and still not get anywhere. Somebody has got to sit down and get their head thinking about it a little.

Mr. CANTLEY: When you prepare your next report, I think you will be able to settle it, in the light of the discussion.

Sir HENRY THORNTON: Rest assured that I am not giving away anything, and I do not intend to.

Hon. Mr. DUNNING: In that regard, the whole question comes down to this: does this Committee approve of the separate voting by Parliament of that portion of the Eastern Lines' deficit which is not caused by the 20 per cent rate reduction? That is really what it comes down to. If this Committee cared to make a recommendation that that portion of the deficit should not be voted, then the whole question settles itself. It is not a question of accounting, it is a question of whether we are going to pay that to the railway or not.

Sir HENRY THORNTON: I think Colonel Cantley has got the right end of the stick. If you will leave it alone, we will get the thing straightened out some way.

Mr. JELLIFF: Could these two reports be put in the one cover, and then a sort of general recapitulation made?

Sir HENRY THORNTON: We have always felt that the deficit on the so-called Eastern Lines was a considerable burden on the company, which ought to be dealt with in some different way from what it has been in the past.

Hon. Mr. DUNNING: You never did agree to accept the Hudson Bay line on the same basis?

Sir HENRY THORNTON: No, and I would not. I would fight to the death against accepting it.

The CHAIRMAN: It is in order for somebody to move adoption of this report.

Mr. JENKINS: I move the adoption.

Mr. CANTLEY: I second it.

Motion agreed to.

Hon. Mr. DUNNING: I think we should adjourn to the call of the Chair in case anything should arise that we cannot foresee now.

Witnesses retired.

The Committee adjourned.





















For Doc.  
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Canada. Railways and Shipping  
" Standing Order No. 1, 1929

SESSION 1929

HOUSE OF COMMONS



SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1—WEDNESDAY, 17th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

OTTAWA

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1929

## MEMBERS OF THE COMMITTEE

SIR EUGENE Fiset,

*Chairman*

Bell, L. G. (*St. Antoine*),

Cantley, T.,

Chaplin, Hon. J. D.,

Duff, W.,

Dunning, Hon. C. A.,

Geary, G. R.,

Gray, R. W.,

Hanson, R. B.,

Jelliff, L. H.,

Jenkins, R. H.,

McLean, M. (*Melfort*),

Milne, R.,

Power, C. G.,

Stevens, Hon. H. H.

JOHN T. DUN,

*Clerk of the Committee.*



## ORDERS OF REFERENCE

HOUSE OF COMMONS,

MONDAY, 15th April, 1929.

*Resolved*,—That Standing Order 63 of the House of Commons, relating to appointment of the Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (St. Antoine), Cantley, Chaplin, Duff, Dunning, Fiset, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens.

Attest.

ARTHUR BEAUCHESNE,

*Clerk of the House.*

MONDAY, 15th April, 1929.

*Ordered*,—That the Estimates of the Canadian National Railways and the Canadian Government Merchant Marine, laid on the Table of the House on Thursday, 11th April, instant, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,

*Clerk of the House.*

WEDNESDAY, 17th April, 1929.

*Ordered*,—That 500 Copies of the proceedings and evidence of the said Committee be printed for the use of the Committee and of the House, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,

*Clerk of the House.*

WEDNESDAY, 17th April, 1929.

*Ordered*,—That the said Committee be given leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,

*Clerk of the House.*

## REPORTS OF THE COMMITTEE

### FIRST REPORT

WEDNESDAY, 17th April, 1929.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government beg leave to present the following as their First Report.

Your Committee recommend that 500 copies of their proceedings and evidence be printed for the use of the Committee and of the House, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

EUGENE Fiset,  
*Chairman.*

*(Concurred in by the House, same day).*

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### SECOND REPORT

WEDNESDAY, 17th April, 1929.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government beg leave to present the following as their Second Report.

Your Committee recommend that they be given leave to sit while the House is sitting.

All of which is respectfully submitted.

EUGENE Fiset,  
*Chairman.*

*(Concurred in by the House, same day).*



# MINUTES OF PROCEEDINGS

ROOM 375, HOUSE OF COMMONS,

WEDNESDAY, 17th April, 1929.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government met at 11 a.m.

*Members present:* Messrs. Cantley, Chaplin, Dunning, Fiset (Sir Eugene), Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Stevens.

*In attendance:* Sir Henry W. Thornton, President, Canadian National Railways, with members of his staff.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

On motion of Mr. Dunning,—

*Resolved*,—That Sir Eugene Fiset be Chairman of the Committee.

Sir Eugene Fiset took the Chair. He thanked the Committee for the honour accorded him, and expressed regret at the death of the former Chairman, Mr. Goodison. Regret was likewise voiced by Messrs. Dunning, Gray and Stevens, and by Sir Henry Thornton.

On motion of Mr. McLean (*Melfort*),—

*Resolved*,—That permission of the House be asked to have 500 copies of the Committee's proceedings and evidence printed for the use of the Committee and of the House of Commons.

On motion of Mr. McLean (*Melfort*),—

*Resolved*,—That the Committee ask permission of the House to sit while the House is sitting.

Copies of,—

- (1) Annual Report of the Canadian National Railway System for the year ended December 31, 1928;
- (2) Canadian National Railways System Analysis of 1928 Operating Expenses as Compared with 1927, were distributed to the members of the Committee present.

## ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

The following items, appearing on pages 5, 6, 7, 8 and 9, were called for consideration, viz.: Gross Earnings. Operating Expenses. Maintenance of Way and Structures. Maintenance of Equipment. Transportation. Betterments. Flin Flon Line. Hudson Bay Railway. Hotels. Wages and Labour. Montreal Terminals. Alberta Railways. Finance. Traffic. Telegraphs. Insurance. Colonization.

With respect to the item; Hudson Bay Railway, Mr. Dunning agreed to submit a statement to the Committee at a later date.

At 1 p.m. the Committee adjourned until to-morrow, Thursday, 18th April at 11 a.m.

JOHN T. DUN,

*Clerk of the Committee.*





## MINUTES OF EVIDENCE

ROOM 375, HOUSE OF COMMONS,

WEDNESDAY, April 17, 1929.

The Select Special Committee on Railways and Shipping met at 11 a.m.

The CLERK OF THE COMMITTEE: Gentlemen, the meeting will please come to order. The first item of business is the selection of a chairman to replace the late Mr. Goodison. Nominations are in order.

Hon. Mr. DUNNING: Mr. Secretary, I think it would probably be the desire of the committee to place on the record the fact that every member here feels very keenly at this moment the loss of our former Chairman, Mr. Goodison, the member for West Lambton. His death is the reason for our requiring to elect a new chairman at this time. No one feels the loss of Mr. Goodison as a fellow member of this committee and its chairman more keenly than I do. I know his services were appreciated by all the members of the committee, and by the president and the staff of the railways as well. It is now necessary to nominate a new chairman, and I have pleasure in nominating Sir Eugene Fiset to act as chairman of this committee.

(Carried).

(Sir Eugene Fiset having taken the Chair).

SIR HENRY THORNTON: I would like to have the privilege of the committee in placing on record the loss which we of the railway company feel in the unhappy death of Mr. Goodison. The officers of the railway and myself are fully in accord with everything the Minister (Hon. Mr. Dunning) has said. I would like to add that we in our dealings with this committee found him always fair and efficient, and we deeply regret his loss.

Mr. GRAY: Mr. Chairman, before proceeding with the order of business, may I say that it is with mingled feelings that I take my seat on this committee. I appreciate the high honour conferred upon me in being selected to take Mr. Goodison's place, in a very humble way, on this very important committee. May I thank the Honourable Minister of Railways (Hon. Mr. Dunning) and the President of the Canadian National Railways (Sir Henry Thornton) for the very kind words they have spoken in respect of Mr. Goodison. I feel his loss very very keenly and from what you gentlemen have already said, and the expressions I have heard in the corridors of this building, I know he is missed in this House very much indeed. I thank you and the committee for what you have said to-day.

The CHAIRMAN: Honourable Mr. Dunning, Sir Henry Thornton, and gentlemen of the committee: I must confess that it is with fear and trembling that I dare to accept the high honour of the chairmanship of this committee, more especially so when I remember that I am replacing, as chairman of this committee, one of the most popular members of the House of Commons, whose sad death we all regret. While not long in the House Mr. Goodison was rapidly becoming one of its most distinguished members and his sterling personal qualities, his character and his genial personality made him an ideal chairman for such an important committee as this. I am quite sure that I am but voicing the wish of the members of this committee, as my first official act, in suggesting that a resolution of condolence expressing our deep regret and sympathy be sent to his wife and family.

[Sir Henry W. Thornton.]

Hon. Mr. STEVENS: I can assure you, Mr. Chairman and gentlemen, that no one feels more deeply than I the loss of my old friend Mr. Goodison, whom I counted as one of my personal friends, as well as an associate on this committee. I hesitate greatly in intervening with any suggestion in regard to the Chairman's proposition. Normally I would be heartily in accord with it, but inasmuch as his regrettable death occurred some two or three months ago, and as the House of Commons has already passed a resolution of condolence, may our action not reopen an old sore and bring forcibly to mind again in the great loss which his family have sustained. I appreciate fully the gracious spirit in which our chairman's words were uttered, and I would earnestly suggest that if such an action as proposed is taken, it be taken in the most delicate way.

Hon. Mr. DUNNING: May I also at this time express what I feel to be the sentiment of every member of this committee in placing on record our deep regret at the passing of my late associate, Major Graham Bell, the former Deputy Minister of the Department at present under my jurisdiction. Major Bell was a faithful attendant at the meetings of this committee, his relations with the National Railways were friendly in the extreme and in addition to the personal loss which I feel at his passing, I miss very greatly his wise counsel and assistance in carrying on the work of the Department.

Mr. HENRY: May I be permitted to express my full accord with the remarks of the Minister (Hon. Mr. Dunning). I feel a great personal loss in the passing of Major Bell. While connected with the National Railway my relations with him were always pleasant and he was of great assistance to us in the problems we placed before the department. The high standard which he established in his work convinced me that it will require all of my efforts to even approximate, although the work is made easier by the manner in which he left the affairs of his department. I am glad to acknowledge the kindly assistance and advice which is being given to me by the Minister (Hon. Mr. Dunning), in endeavouring to carry on the work of my late friend, whose passing I so much regret, Major Graham Bell.

The CHAIRMAN: Generally at our first meeting we move to ask the House for the necessary authority to print the proceedings of this committee and also for leave to sit while the House is in session. Will one of the members make those motions?

Mr. McLEAN (Melfort): I so move, Mr. Chairman.

Mr. GEARY: I am quite agreeable, if we find it necessary to sit while the House is in session.

Hon. Mr. DUNNING: We rarely have, in fact, used the privilege, but we ask for it in case we find it necessary.

The CHAIRMAN: Gentlemen, in the past at our first meeting it has been the practice to ask Sir Henry Thornton to give us a general statement, and it is my pleasure now to call upon him to give us such statement.

Sir HENRY THORNTON: Mr. Chairman and gentlemen of the committee: It is a pleasure to greet you all again. The annual meeting of the officers of the railway with this committee has come to be interesting, useful, and indeed pleasurable.

With respect to the operations of the last year I would first like to call your attention to the fact that the annual report is published for the year 1928, and meets some of the criticism expressed at the meetings of the committee last year, with respect to the way in which the Eastern Lines Account and the System Accounts were shown. The report this year shows, first, the main report which represents the Canadian National Railway System excluding the Eastern Lines; at the back of that report will be found the financial performance of the Eastern Lines themselves, as an integral unit, and following that will be found the

[Sir Henry W. Thornton.]



financial performance of the system as a whole including the Eastern Lines, so that the members of the committee have first, the railways as a whole, excluding the Eastern Lines, and then the consolidation of the two.

Mr. GEARY: The white pages show the Canadian National Railway, including the Eastern Lines?

Sir HENRY THORNTON: No.

Mr. GEARY: I thought not, but I understood that was what you said.

Sir HENRY THORNTON: The white pages represent the Canadian National Railways excluding the Eastern Lines; immediately following that you will find printed on yellow sheets, the Eastern Lines, with the financial performance with respect to that part of the system, and following that printed on blue sheets will be found the combined Income statement. Does that make it clear, Mr. Geary?

Mr. GEARY: I understood that, but I thought you said in your last remark—

Sir HENRY THORNTON: I may have made a slip of the tongue.

Mr. HANSON: Sir Henry (Thornton), I am a new member of this committee and for my personal information I would like to know why this system has been followed in the past. The Eastern Lines are an integral part of the National system, as much as the Central Lines and the Western Lines, but because they end nowhere—at Levis—we in the maritime provinces feel that this system of accounting is not quite fair to that community. I have discussed that with some of your officers and they agree with me, and it is a rather sore spot with the maritime provinces. But for the moment I am simply asking for information.

Sir HENRY THORNTON: We felt last year in preparing the report that since certain reductions had been made in certain rates which seriously affected the financial performance of the railway and that the deficit caused thereby was to be made up by governmental contribution, in order not to distort or give an opportunity for incorrect deductions to be drawn, we were quite justified in showing the performance of the railway system as a whole, but excluding the Eastern Lines. At the meeting of the committee last year Mr. Stevens brought that question up and it was discussed at much length. After the debate in the committee and having regard particularly for the reasons advanced by Mr. Stevens, we of the Railway came to the conclusion that he was justified and right in making that criticism, and that we would show the figures this year three ways, the railway excluding the Eastern Lines, the Eastern Lines, and the two combined. Those are the only three ways we can show it. If you can show us a fourth we will be willing to do it.

Mr. HANSON: That is a complete answer to my question. It was only information I was after.

Sir HENRY THORNTON: The report for the year which has just passed represents by far the most satisfactory year which the system has experienced, both from a financial and an operating point of view. The figures speak more eloquently than any words of mine. It may perhaps be of interest to you to know that last year out of every dollar, there was available for interest 17.64 cents. As a matter of interesting comparison, consider the class 1 railways of the United States, which represent the larger railway systems in that country. The total amount available for interest was 15.21 cents. The comparison which I have given to you compares the Canadian National Railway in 1928 with the class 1 railways in the United States for 1927. We were obliged to use 1927, because the statistics for the American railways for 1928 are not available, but 1927 was an extremely prosperous year in the United States; the railways did extremely well, and there is no injustice to either side in drawing a comparison between the two years.

I think from a national point of view—and by that I do not mean the Canadian National point of view—that it ought to be of some satisfaction to

[Sir Henry W. Thornton.]



know that the system of the Canadian National Railway earned more available for interest than the class 1, or better class, railways, within the United States, having regard to the fact that a good part of our mileage is still in a development stage; that is to say, traffic has not yet caught up with the mileage we have built to open the country. I think from a Canadian point of view the comparison is a good one.

Gentlemen, we have prepared an analysis of the 1928 operating expenses as compared with 1927. This is the same character of analysis as was prepared last year. It is intended to put on paper the particular points with respect to which questions might arise, and with the approval of the committee I would like to distribute copies of that to each member. It is a difficult thing to follow if read, because there are a great many figures and statements involved, but it may be well used, as I think was the case last year, as the basis for discussion. Is it the pleasure of the committee, Mr. Chairman, that these copies should be distributed?

The CHAIRMAN: Certainly, Sir Henry.

Hon. Mr. STEVENS: Will that be an analysis of the statement on page 21?

Sir HENRY THORNTON: It is an analysis of the expenses. Let us see what page 21 says. (Referring to page 21). No, it is an analysis of all the expenses. Page 21 is merely the railway operating expenses. What I meant when I said, "Operating expenses", was maintenance of way, maintenance of equipment, transportation, and the general traffic expenses.

Mr. HANSON: There is no question but that the country is quite delighted with the figures which your statement reflects. There is, however, one point about which I am a little uncertain. Is that statement the result of increased tonnage on your own lines, due to the increased tonnage and passenger traffic in the country as a whole, or is it at the expense of the other Canadian national railway?

Sir HENRY THORNTON: I am very glad that you asked that question, because it is frequently said—but inaccurately,—that the Canadian National Railway is taking traffic from the other great Canadian railway, the Canadian Pacific. That statement is not correct. Naturally both railways strive to secure all of the traffic they can one from the other. That is a good thing in the interest of the country, and in the interest of the public, but if you will examine the net returns of the Canadian Pacific Railway since the Canadian National Railway came into existence as an entity, you will find that the net returns of that company, have progressively and largely increased. For example, last year the net returns of the Canadian Pacific Railway exceeded any year, excepting two of the war years, which were, of course, quite unusual years. Am I right in that, Mr. Thompson?

Mr. THOMPSON: Yes, they reached a record last year.

Sir HENRY THORNTON: Was that more than any other year?

Mr. THOMPSON: Yes, more than any other year.

Sir HENRY THORNTON: Therefore, I should say, if I were a Canadian Pacific officer, that the Canadian National Railway was a great asset to the Canadian Pacific. I would likewise say, as a Canadian National officer, that I regard them as an asset to us.

Mr. CANTLEY: Then suppose you improve your position in Nova Scotia by bringing them down there.

Sir HENRY THORNTON: We have not yet become a Christmas tree.

Mr. HANSON: That remark is slightly ambiguous. You can take three or four different meanings out of that.

Sir HENRY THORNTON: That is the only safe statement to make.

[Sir Henry W. Thornton.]



Mr. GEARY: I suppose you would like a few gifts off the Christmas tree?

Sir HENRY THORNTON: Blessed is he who receives, as well as he who gives. I think as far as relations between the two companies are concerned it is a good arrangement and is working satisfactorily. We have our little "dust-offs" from time to time, but they are rather amusing and generally enjoyable.

Now, with respect to this statement which has now been distributed, is it the wish of the committee, Mr. Chairman, that we should take that item by item, or do you prefer to go through the items of the annual report? I think you will find everything here that is in the report. This analysis was designed to help the members of the committee in their criticism and comment.

Hon. Mr. DUNNING: With regard to that point: It will be remembered that last year we went through the analysis first, and the analysis became then a part of the printed record so that it was more easy of access to the members of the House generally. Then, following that, having gone through the analysis, we found the work of going through the accounts themselves very much simplified. personally I think that course was satisfactory to all of us, inasmuch as it made the analysis itself a part of the permanent record and available to the members of the House generally. I have no particular reason other than the convenience of the committee for proposing that we follow that course.

Hon. Mr. STEVENS: I would like to make one suggestion and I do not make it in any dogmatic attitude, but would it not be well first to run through Sir Henry Thornton's report to the Minister, (Hon. Mr. Dunning) then the president's report, and then go into the details? What I am a little afraid of is that we will get into the details which are exceedingly complicated and yet away from one or two of the main points upon which, personally, I would like to get a little explanation from Sir Henry.

The CHAIRMAN: I think it will be much better to let Sir Henry complete his statement and then ask questions of him afterwards.

Sir HENRY THORNTON: As a matter of fact, Mr. Chairman, my statement really consists of the few words I have said, plus this analysis.

Hon. Mr. DUNNING: The analysis is really your statement?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Is it the pleasure of the committee that we should proceed first with an examination of the analysis?

Mr. GEARY: Mr. Chairman, it strikes me that the report contains both sides of the ledger, the revenue and the expenses, and the different main items with which Sir Henry is dealing, but only one of those subdivisions is covered by this analysis.

Sir HENRY THORNTON: This is only intended to cover what we call "Operating expenses".

Mr. GEARY: I think if we had a general view of this thing first and then go into the items of operating expenses, we would be better off.

Hon. Mr. DUNNING: Probably that would be covered by Mr. Stevens' suggestion, if first we would have the report of the president (Sir Henry Thornton) to the Minister, (Hon. Mr. Dunning). Previously we have found the analysis much more intelligible than by going over every page of the report without it.

Hon. Mr. STEVENS: I quite agree with the Minister (Hon. Mr. Dunning), but I would like to ask a few questions on this report, which I can do forthwith if it is the desire of the committee.

Hon. Mr. DUNNING: On the report of the Minister?

[Sir Henry W. Thornton.]

Hon. Mr. STEVENS: Yes. I will not ask Sir Henry Thornton to read this long statement, and I am not suggesting it should be read.

Sir HENRY THORNTON: I think the report has been before the members for a long time. I am willing to have it read, but perhaps the best way to do would be to take the headings of the paragraphs, and at the proper time to touch upon any point which any member of the committee wishes to bring up.

Hon. Mr. STEVENS: There are three or four points I want to ask some questions about.

Sir HENRY THORNTON: Shall I begin, Mr. Chairman? "Gross Earnings"—

Hon. Mr. STEVENS: I notice under that heading the following:

The great volume of traffic was to a large extent due to the heavy Western crops of the last two years; and to bad weather conditions and a late harvest in 1927 which left a large carry over of that year's crop for 1928; also to the good weather conditions of last fall and an early harvest which enabled an unusually large proportion of the 1928 crop to be carried to terminal elevators in that year.

That would indicate a substantial increase in the earnings from freight, which is reflected in the earnings statement, was due to the abnormal conditions, and I am asking this question, in the light of our provisions for the coming year, if you anticipate a falling off during 1929?

Sir HENRY THORNTON: Mr. Stevens, there is nothing so uncertain to estimate as to what the annual crop each year will be. We have to look at it over a longer period of time than simply one year. We do find that, taken over a period of years, the annual crop production of Canada has materially increased. We feel quite confident that that increase will continue progressively for the next—I do not know how many years; several decades. Last year we had an exceptionally large crop due to favourable weather conditions. What the crop will be this year I do not know. I do not think anyone can say. It will depend a great deal on how much rainfall we get in June and July.

Hon. Mr. DUNNING: There is one point upon which a comparison can be made, and that is the relative carry-over.

Sir HENRY THORNTON: I was coming to that. There is a relative carry-over, and that increases each year as the crop increases. Now, I do not know whether this has any bearing upon it or not: I am inclined to think it has, but as I think I mentioned last year in investigating the water levels of the Great Lakes, the investigators have found that those levels rise and fall in cycles of about sixty years. You will have a cycle of low water and then move into a cycle of high water, and from peak to peak and depression to depression is about sixty years. The waters of the Great Lakes can only come from one source, as I see it, and that is from the rainfall. Therefore, it would seem reasonable to assume that the rainfall may vary in some such cycle.

Mr. CANTLEY: And snowfall as well?

Sir HENRY THORNTON: What I really mean is precipitation, both rain and snow. We might argue from that—and some evidence advances the theory—that inasmuch as we are now coming into a wet cycle—

Hon. Mr. CHAPLIN: We have only this record for a certain time.

Sir HENRY THORNTON: I am only telling you what the investigators have developed. Whether it is true or not, I don't know, but it looks as if there were something in it. It looks as if we were now in what might be described as a wet cycle, and that will mean a protracted period of abundant crops on the prairies, and in the basin tributary to the Great Lakes. This is merely presented for what it may be worth. We do find, however, that our crops unquestionably vary, as you know, with the weather conditions, and in answer to

[Sir Henry W. Thornton.]



your question, Mr. Stevens, I would say that we anticipate the results of past years will support the supposition that our grain production in Canada will annually and materially increase. There may be some years when it may be a little better than others, or a little worse, depending on weather conditions, but taking over a period of years I think there will be found to be a progressive increase in Canadian grain production and also the constant breaking of new acreage will have an effect, because each year there is a certain amount of new acreage coming under cultivation.

Mr. HANSON: That is the hope of the railways, and I think of the country.

Sir HENRY THORNTON: I think you can put it down as more than a hope; I think you can take it as a certainty.

Hon. Mr. STEVENS: What portion of the revenue was from the wheat crop?

Sir HENRY THORNTON: I will ask Mr. Fairweather to look that up.

Mr. FAIRWEATHER: We cannot answer that, right off the bat; we can make an estimate of it.

Hon. Mr. STEVENS: Turn to page 32 and you will find the tonnage, products of agriculture, in round figures, \$14,000,000; products of animals, \$1,450,000; products of the mines, \$21,000,000; and products of the forest, \$10,000,000, manufactured articles, \$18,000,000, and so forth.

Sir HENRY THORNTON: Is your question as to the percentage of gross freight earnings of the Canadian National Railway which may be, charged to products of the soil?

Hon. Mr. STEVENS: Yes, in the light of this statement that the great bulk of the traffic was due to the heavy western crops.

Sir HENRY THORNTON: Do you want it in tons or revenue?

Hon. Mr. STEVENS: In revenue.

Sir HENRY THORNTON: Let me understand that question. You want in money the gross revenue which accrued to the company through the movement of products of the soil, or do you want it limited to wheat?

Hon. Mr. STEVENS: No, I simply want an elucidation of that item.

Sir HENRY THORNTON: Products of the soil?

Hon. Mr. STEVENS: Yes.

Sir HENRY THORNTON: All right, we will have that looked up.

Hon. Mr. STEVENS: Really, Sir Henry (Thornton) I did not expect to put you to any trouble—

Sir HENRY THORNTON: We are here to provide you with what you want.

Hon. Mr. STEVENS: I see on pages 32 and 33 an analysis of tonnage, and I thought it would be a simple matter to interpret that in dollars. I suppose I can answer my own question, if I took the tonnage—less than twenty-five per cent.

Sir HENRY THORNTON: The products of agriculture represent about 22.41 per cent of the total tonnage.

Hon. Mr. STEVENS: How is that reflected in revenue?

Sir HENRY THORNTON: That is a little difficult to say, because there are all kinds of products of agriculture in that at different rates.

Hon. Mr. STEVENS: The main portion is wheat?

Hon. Mr. CHAPLAIN: The percentage of earnings runs very much the same as the percentage of commodities?

Sir HENRY THORNTON: No, you cannot say that with certainty. For instance, the production of manufacturers would run very much higher per unit.

[Sir Henry W. Thornton.]

Hon. Mr. DUNNING: A partial answer is contained in the analysis? Oh, I see, it is in your broad analysis.

Sir HENRY THORNTON: This may throw some light upon your question: "The western region shows an increase in grain amounting to \$9,000,907; over \$4,000,000 of this amount is on the grain carried over from the previous year.

Hon. Mr. STEVENS: What is the total amount of grain?

Sir HENRY THORNTON: From the western region alone \$9,000,907.

Hon. Mr. STEVENS: What is the total?

Sir HENRY THORNTON: We will have to get that.

Hon. Mr. DUNNING: Grain moves in many directions.

Hon. Mr. STEVENS: I am at a loss to know why the question should be so embarrassing.

Sir HENRY THORNTON: You asked us to tell you in dollars what the revenue is from a certain tonnage of grain. That takes all kinds of rates and grain moved to all sorts of places, and it is an extremely complicated and difficult thing to work out.

Hon. Mr. STEVENS: Would it be a fair statement to say that in tonnage the amount carried of agricultural products, including grain, is about 22 per cent of the total?

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Then in view of the fact that the manufactured articles run into eighteen million tons, and carry relatively a much higher rate than the agricultural products, particularly wheat, is it correct to say that the ratio of revenue from agricultural products would be somewhat less than twenty-two per cent of the whole?

Sir HENRY THORNTON: Another thing you have to consider in that connection is that the average haul on manufactured articles is very much less than the average haul on the wheat, and that is an important factor, because the most remunerative traffic is the long haul traffic, although that depends in turn upon the rates.

Hon. Mr. STEVENS: The manufactured articles tonnage is very large too?

Mr. GEARY: Yes, but it does not reflect anything until you get your car miles.

Mr. HANSON: The haul of wood pulp is fairly large?

Sir HENRY THORNTON: Yes. The movement of a ton of pulp to Chicago would be very remunerative traffic, much more per unit than the movement of x-bushels of wheat.

The CHAIRMAN: Do you require that statement to be prepared for the next meeting, Mr. Stevens?

Mr. HANSON: They will give us the statement.

Sir HENRY THORNTON: Let me again try to find out what you want. You want the revenue accruing from products of the soil? We can make an estimate of it, Mr. Stevens.

Hon. Mr. STEVENS: Yes, to interpret that statement.

Sir HENRY THORNTON: We can make an estimate. It will not be accurate, but it will be sufficiently accurate for your purpose. Nobody can get it any closer.

Mr. HANSON: On pages 32 and 33 of your statement there is a comparative statement of revenue tonnage by commodities, and it is divided into five headings. Perhaps we could have an approximation in dollars and cents, of what the revenues were in money from those particular five headings?

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: We cannot get it. We can make a stab at the products of agriculture, but the other would be an extremely large order.

Mr. HANSON: All right.

Mr. GEARY: The Minister (Hon. Mr. Dunning) was dealing with the question of carry overs of grain. Have you got that ready for 1926, 1927, and 1928?

Hon. Mr. DUNNING: There is an approximation, yes; four million dollars of the increase was accounted for by the previous crop.

Sir HENRY THORNTON: The total increase in grain revenue in the western region—and I am speaking only of that—was roughly \$10,000,000. Of that increase \$4,000,000 was accounted for by the carry over from the previous year.

Mr. GEARY: The 1927 crop?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Have you got the 1926 carry over?

Sir HENRY THORNTON: We have not that here.

Hon. Mr. DUNNING: The question which produced that is the relationship of the present carry over from 1928 to 1929, and is the one to which Sir Henry (Thornton) is now referring. My impression is it is about as much, if not more.

Mr. HANSON: I understood him to say that the carry over was more or less constant in relation to the gross crop?

Sir HENRY THORNTON: No; I cannot say that. A late year always brings in a carry over.

Mr. GEARY: May I follow that for a moment. Mr. Dunning may know better than Sir Henry about that. The statement was made that the carry over depends on the size of the crop. Is that accurate?

Hon. Mr. DUNNING: No, it is not. The only factor is that a late crop might have a larger carry over than an early crop.

Mr. GEARY: How many bushels of grain were left in the elevators last August?

Hon. Mr. DUNNING: I cannot answer that.

Mr. GEARY: It had to be shipped out quickly to give room for the incoming crop?

Hon. Mr. DUNNING: The progress of marketing does affect it in some years, but only rarely. Usually the terminals are in shape to receive the new crop. Very seldom is the carry over a blocking factor.

Mr. GEARY: Would that be because the carry over in August is sacrificed in order to make room?

Mr. HANSON: No, not necessarily.

Hon. Mr. DUNNING: Only rarely; most of it is sold for future delivery long in advance.

Mr. McLEAN (Melfort): I think the press this morning reported there was more grain in store now than last year; the carry overs are bigger than last year.

Sir HENRY THORNTON: There are a great many different elements which enter into a grain movement, and among the difficulties in estimating the value of the movement are unexpected factors which vary from year to year.

Hon. Mr. DUNNING: There is very little difference between us, Mr. Geary. When I referred to the carry over in the first place I referred to it from the railway point of view as from January 1st to January 1st. I was not referring to the crop carry over which occurs during the middle of the railway year.

[Sir Henry W. Thornton.]

Mr. GEARY: Was that due to the pressure of the railway not being able to move the crop?

Hon. Mr. DUNNING: No, it arose from several conditions. If there is a heavy crop, then the physical capacity of both railways is taxed to the utmost to get it down to the head of the Lakes before the close of navigation. The tendency after the close of navigation on the Lakes is for it to pile up in the terminals placed at the head of the Lakes and move no farther. There is a certain amount goes forward to Halifax and St. John, and there is a constant movement westward to the Pacific; but from the railway point of view there is a tendency for some corporations to store their grain in their own country elevators as far as possible, because under circumstances which prevail in most years it is a cheaper form of storage than at the head of the lakes or elsewhere. Consequently, the carry over to which I refer is a carry over still in the farmers' hands or in the country elevators on the first day of January in any year. May I ask, Sir Henry, are you not of the opinion from the reports that the carry over on the 1st of January, 1929, was approximately equal, if not greater, than the carry over from the point of view which you had on the 1st of January, 1928?

Sir HENRY THORNTON: I would say it was rather greater, without looking up the statistics.

Hon. Mr. DUNNING: That has an important bearing on Mr. Stevens' question. Probably the carry over could be estimated.

Sir HENRY THORNTON: We can find that out, if you would like to have it. Now, "Operating Expenses."

Mr. GEARY: Were there any adjustments of freight rates in 1928 which accounted for an increase or decrease in the gross earnings?

Sir HENRY THORNTON: General order 488 effective September 12th, 1927, which reduced the grain rates in western Canada to Port Arthur and Fort William to C. P. R. main line basis, and grain rates to Vancouver and Prince Rupert for export, were reduced to the lakehead basis. These reductions reduced our revenues by \$780,000 for the period January 1st, 1928 to September 11th, 1928. After September 11th, both years, the rates were the same. In the same way there was a reduction on rates on grain from lakehead to Quebec, and on the traffic which moved over this route in February and March, 1928 there was a reduction of \$64,000. This is the first time the railway has to any extent moved grain over the northern route via Cochrane. The rate from Fort William to Quebec was reduced from 34½ cents to eighteen point three four cents per hundred pounds, while the rate to Halifax remained at 35½ cents per hundred pounds. There were also reductions in distributing rates effective September 12th, 1927, which resulted in a loss of \$64,000 for the period January 1st to September 12th, after which date the rates were the same in both years.

The reduction of our revenue due to decreased freight rates was \$908,000.

Mr. GEARY: None of it was reflected—

Sir HENRY THORNTON: Before you compare 1928 with 1927 rate reductions, subtract from our gross in 1928 \$908,000. Does that answer your question?

Mr. GEARY: Yes, thank you. We will take the expenses later on.

Mr. McLEAN (Melfort): Are there any increases to balance that?

Sir HENRY THORNTON: No.

Mr. GEARY: What is your miscellaneous item in revenue?

Sir HENRY THORNTON: I do not know just to what you are referring. Those represent the International Bridge Company tolls, the Victoria Jubilee Bridge tolls, fuel stations, wharf dockage, labour and handling.

Mr. GEARY: No investments?

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: That is only expenses you are reading; that is not revenue. The revenue from the International Bridge Company was \$350,000; from the Victoria Bridge, \$448,000. Those are the two particular items.

Hon. Mr. STEVENS: You have an item of \$16,000,000 in that miscellaneous.

Sir HENRY THORNTON: I am only explaining the increase. Mr. Geary asked what we represented by miscellaneous earnings. That appears on page 18 of the report. That represents everything excepting accounts 101, 102, 106 and 107.

Hon. Mr. DUNNING: It includes telegraphs and dining cars and all that kind of thing. There are only five items on the first page, and miscellaneous represents the summarizing of most of them.

Mr. GEARY: Your account numbers are the Dominion Bureau of Statistics, or are they the Interstate Commerce Commission's numbers?

Sir HENRY THORNTON: We use the Interstate Commerce Commission's numbers. They are the same in Canada.

Mr. GEARY: Practically the same classification.

Sir HENRY THORNTON: Exactly the same classification. We will now go on to quote Maintenance of Way and Structures, Maintenance of Equipment, Transportation and Betterments—

Mr. HANSON: Before we leave these headings "Maintenance of Way and Structures" and "Maintenance of Equipment": Is the increase there the standard increase for the year, having regard to your mileage, or what is it based upon?

Sir HENRY THORNTON: You are speaking of Maintenance of Way and Structures?

Mr. HANSON: There is a standard and an obligation every year to keep up to a certain standard—sometimes that is deferred?

Sir HENRY THORNTON: There is no obligation. It is the part of good judgment and good business to maintain the railway at the standard which the character of the traffic requires, and from year to year to improve that standard as the traffic demands.

Mr. HANSON: Raise up the standard?

Sir HENRY THORNTON: Yes.

Mr. HANSON: I suppose you know there is a certain amount of criticism in the maritime provinces in regard to maintenance of way?

Sir HENRY THORNTON: I have not heard of it.

Mr. HANSON: You have not travelled over your branch lines down there?

Sir HENRY THORNTON: Oh yes I have.

Mr. HANSON: You have probably not travelled over the bumps.

Sir HENRY THORNTON: Bumps are not unusual in the maritimes.

Mr. HANSON: There is a saying that the railway is not being kept up.

Sir HENRY THORNTON: As a matter of fact the standard of the main lines in the maritime provinces has been very materially improved in the last six years.

Mr. HANSON: I think some of the criticism is due to the fact that you are using heavier equipment.

Sir HENRY THORNTON: We have materially improved the standard of the main lines. Now, with respect to branch lines, that is a matter of judgment. It is obviously foolish to maintain a branch line over which there is a light and probably infrequent traffic at the same standard as the main line. That is one of the things in respect of which we are paid to use our judgment.

Mr. GEARY: I suggest these questions might be more readily taken up when dealing with expenditures. Is any of that deferred, or just the current expenditures?

Sir HENRY THORNTON: There is nothing deferred. It is all current. What usually happens on every railway is if you happen to get a good year you naturally take advantage of that year and spend as much as you think your purse will permit, but if you get a bad year, you economize. That is done in every business.

Mr. HANSON: That is an absolutely true statement. That is ordinary common sense.

Hon. Mr. DUNNING: As a matter of fact, if you are hauling more freight over the road and getting more out of it, you have to spend more in order to be able to do it.

Mr. GEARY: The road is never cramped then as long as it can reasonably maintain its way?

Sir HENRY THORNTON: When the consolidated management took hold of the railway we found that the maintenance of certain parts of the main line, not only in the maritimes but in the west and everywhere, was below the standard I thought it ought to be, and we have year by year extended ourselves financially to try to catch that up. For instance, if you take the road from Lucerne to Prince Rupert, it was badly in need of both ballast and ties six years ago, and on certain parts of the road you could not run a passenger train at a higher speed than fifteen miles per hour. That had to be brought up to standard. The same thing was true with other parts of the railway. Then there was a question of stone ballast between Montreal and Toronto and straight through to Chicago. The thing has to be done, and we are doing it as rapidly as we can. It cannot be done in a year, but it must be done.

Mr. GEARY: During the last four or five years there has been no conscious let up in the maintenance of way?

Sir HENRY THORNTON: I would say it is just the reverse; we have spent more than perhaps we should in some ways, because I felt the necessity for improving the character of the track.

Hon. Mr. DUNNING: That improvement is visible all over the system.

Hon. Mr. STEVENS: No doubt about it; no doubt in the world.

Sir HENRY THORNTON: We have now come down to Betterment. Then there is the Flin Flon line, to which reference is made; the Hudson's Bay railway—

Mr. GEARY: Will we get the Hudson's Bay railway in detail?

Sir HENRY THORNTON: No, you will not get that unless you raise it yourself. We will be glad to answer any questions you like to ask.

Mr. GEARY: You are working as an agent for the government in that?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Mr. Dunning, where can we get those expenditures?

Hon. Mr. DUNNING: In the House, in the usual way.

Mr. GEARY: In your estimates?—

Hon. Mr. DUNNING: Yes. The amount expended on the Hudson's Bay railway was expended by the Canadian National as the agent for the Minister, and the House votes the money.

Mr. HANSON: They are a year old.

Hon. Mr. DUNNING: That is always true, but if there is any question about what the railway spent, the railway officers will be glad to give you that

[Sir Henry W. Thornton.]



information. But it is a government expenditure using the Canadian National as the agency through which the work is being done, and as the most economical way of getting it done.

Hon. Mr. STEVENS: Perhaps the Minister (Hon. Mr. Dunning) would have a complete statement prepared so we could get it rapidly in the House?

Hon. Mr. DUNNING: When I bring down my own estimates I will be glad to give you any information.

Mr. GEARY: It would be a convenience while Sir Henry (Thornton) and his officers are here if we could have that statement of expenditure.

Hon. Mr. DUNNING: I would suggest, if not inconvenient to you, after these accounts are cleaned up, if the committee wish to discuss that—it is not properly before this committee.

Hon. Mr. CHAPLIN: It will have a tendency to save time in your work.

Hon. Mr. STEVENS: Suppose you prepared a statement which we could have before us, upon which we could intelligently criticize or ask any questions desirable.

Hon. Mr. DUNNING: We can do that.

Mr. GEARY: In this committee?

Hon. Mr. DUNNING: We can do that.

The CHAIRMAN: The discussion to take place when we are through with the report.

Hon. Mr. STEVENS: It is not before the committee properly, but inasmuch as the railways are handling the funds we might strain the reference to the committee and incorporate that.

Sir HENRY THORNTON: We cannot include that in our report, because we are only the agents. The next item is "Hotels."

Hon. Mr. STEVENS: I noticed a very interesting hole in the ground when I was out on the coast at Easter. It seems to be rather a slow cry from a hole to a hotel. What is the progress on that?

Sir HENRY THORNTON: If you will watch the little seed grow, Mr. Stevens, you will find it will progress as rapidly as we can make it. We have no desire to delay it.

Hon. Mr. STEVENS: How are you getting along? I understand the plans are not ready.

Sir HENRY THORNTON: Yes, they are ready. There is no delay anywhere.

Hon. Mr. STEVENS: It will go right along?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): How large a hotel will that be?

Sir HENRY THORNTON: Five hundred bedrooms.

Mr. HANSON: I notice this is a brief statement of what you have done in the past, but it does not give us much indication of the policy of the company with respect to the future. I mention this because since I left home quite a substantial agitation in my own little town has started for a hotel, and I expect they will be coming to see you.

Sir HENRY THORNTON: I have yet to find any community which is not pursuing the same course.

Mr. HANSON: I am warning you that a delegation is coming.

Sir HENRY THORNTON: I knew it was coming.

Mr. JENKINS: Have you anything to say with regard to the situation at Charlottetown?

Sir HENRY THORNTON: That will come up in the estimates.

Mr. GEARY: Whether they pay or not, I can testify to the fact that you run good hotels.

Sir HENRY THORNTON: We try to, but sometimes they are not as good as we would like to see them.

In the main, however, they are pretty well done. Jasper Park is becoming one of the talking points of the American continent. People go there from all over the country. Curiously enough, to illustrate that, I met a gentleman there last year, a very wealthy man from Philadelphia, who came to stay two weeks and stayed two months, and he said he was so pleased with Jasper Park that he intended to make some large investments in Canada, and I think he did.

Mr. GEARY: He probably had the room I wanted to get. Aynway, they do you pretty well there.

Mr. HANSON: Is the hotel department of the company a profitable undertaking?

Sir HENRY THORNTON: Taking it from its own earnings, it is not. We had a loss of \$135,000 last year, and that will come up in the analysis of expenses. It is not profitable by itself, but taking it in connection with the railway operation, I think it is a desirable thing to continue.

Mr. HANSON: Then there is the condition that your competitors are going strong.

Sir HENRY THORNTON: Very strong, and we are having some trouble in keeping up. The next item is "Wages and Labour," then the "Montreal Terminals."

Mr. STEVENS: I see that will cost \$50,000,000.

Sir HENRY THORNTON: I should think about that. It certainly would not exceed that.

Hon. Mr. STEVENS: Would there be any recovery from that?

Sir HENRY THORNTON: Yes, a very material recovery. We estimate that the revenue which will ultimately accrue from overhead rights not required for railway purposes will go a very considerable way toward paying the interest on the annual cost.

Mr. GEARY: Is the location finally determined upon?

Sir HENRY THORNTON: Yes, as far as we are concerned.

Mr. HANSON: Following up that thought in connection with revenue, will you elaborate on that a little, because that is a phase of the question which we do not know much about.

Sir HENRY THORNTON: I think it might be more properly taken up in connection with the consideration of the terminal itself.

Hon. Mr. DUNNING: Inasmuch as the subject has brought a resolution now on the order paper, which will undoubtedly result in the whole matter being referred to the General Railway Committee, we are not in a position to discuss something here which is not properly before the House.

Mr. HANSON: It is covered by this reference, and perhaps some of us would not have the opportunity of appearing before that other committee. However, I will not stress the point if there is an objection taken.

Hon. Mr. DUNNING: The only objection I would take is that the plan is not and cannot be before us properly; it is only a piecemeal way of getting at it.

Mr. HANSON: I suppose it is useless to hope for any joint terminal facilities in Montreal?

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: Not to prolong a discussion which might perhaps be more appropriate elsewhere, I can only say that as far as we are concerned, we are quite willing to welcome the Canadian Pacific Railway to a participation in our terminal.

Mr. HANSON: But it must be your terminal, and they say it must be their terminal.

Sir HENRY THORNTON: It is not a question of ownership; it is a question of what each railway wants to do. We have offered them under every reasonable safeguard the hospitality—if you want to put it that way—of our terminal. We will not use their terminal because it would be quite unsatisfactory, and also debar our giving to the public the service which we think the public needs.

Mr. GEARY: Are you having any difficulty in the Toronto terminal because of the joint arrangement?

Sir HENRY THORNTON: None whatever.

Mr. HANSON: Would not a joint arrangement be advantageous in Montreal?

Sir HENRY THORNTON: We are quite willing to make any reasonable arrangement with reference to participating in the use of our terminal, but the Canadian Pacific say: "No, we do not want to go into your terminal under any conditions."

Mr. GEARY: And you do not want to go into theirs?

Sir HENRY THORNTON: Not only don't want to, but I won't for the very simple reason that going into their terminal would restrict the service—

Mr. GEARY: I do not mean that, but I was speaking of the Toronto arrangement, where the stock is held fifty-fifty.

Sir HENRY THORNTON: That works quite satisfactorily. It is an arrangement in quite common use all over the world.

Mr. HANSON: The Grand Central in New York is an outstanding example.

Sir HENRY THORNTON: Not the Grand Central. I think that is owned jointly by the New York Central and the New Haven, and the other roads using it are tenants. On the other hand you have the St. Louis terminal used by some fifteen different railways.

Mr. HANSON: What about the Washington terminal?

Sir HENRY THORNTON: That is a joint terminal.

Mr. HANSON: Well, here is a huge expenditure of \$50,000,000 which might in part be avoided if these two railway systems could get together.

Sir HENRY THORNTON: This perhaps may not be the place to discuss it, but we feel that we have very good reasons for the position which has been taken. They will eventually all come out when this gets before the proper committee.

Hon. Mr. DUNNING: The objection is not to getting together; it is in regard to the facilities which each one feels it must have—physical facilities. It is not a question at all of whether there should be a union arrangement as such.

Sir HENRY THORNTON: No, and the further fact that each railway is laid out in such a fashion that one does not lend itself to the other.

Mr. HANSON: We had the same thing in a very small degree in the city of Fredericton where it would have been a fine thing if the two railways could have come into one station. Each was willing to take the other into its station, but neither would agree to go, and the result is that we have a duplication of

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passenger terminal facilities within a distance of less than half a mile. There was strong objection taken on the part of the shippers who after all have to pay for it.

SIR HENRY THORNTON: I suppose the shippers could not get improved facilities for nothing.

MR. HANSON: But when you have a duplication of facilities, you have to pay interest on them.

SIR HENRY THORNTON: So far as we are concerned, we are willing to make every arrangement to avoid duplication.

HON. MR. DUNNING: In fairness to both I think I have expressed to both managements remarks similar to those expressed by Mr. Hanson, and I think I can say for both railways that, taking Canada as a whole, there has been a marked advance in the effort to avoid expensive duplication during the past year. Both managements have responded in many parts of Canada. That is all to the good, but one cannot insist upon that under all circumstances and in all places.

SIR HENRY THORNTON: We now pass to "Alberta Railways"; "Finance".

HON. MR. STEVENS: Under the head of "Finance", I want to ask Sir Henry Thornton to give us a little light on two or three points. For instance, under the Appropriation Acts \$39,000,000 was voted last year, and I see there was an issue of \$35,000,000 of four and a half per cent forty year guaranteed gold bonds made for various purposes, approximately as follows: Expenditures for branch line construction and the Toronto viaduct scheme, \$13,500,000, and various expenditures under the 1928 budget of \$21,500,000. Will you give us an explanation of that twenty-one and a half million dollars for various expenditures?

SIR HENRY THORNTON: Perhaps I might mention some of the larger items. Well, there is one million five hundred thousand for new rails and fastenings, required to re-lay with heavier rails, and that represents the portion to be charged to capital. There is \$2,300,000 for tie-plates.

MR. HANSON: Is that all capital?

SIR HENRY THORNTON: Yes.

HON. MR. STEVENS: Why?

SIR HENRY THORNTON: Under the accounting rules we must give it this number. Where we had no tie-plates before, the accounting rules say we must charge it to capital.

MR. GEARY: You set up no depreciation fund for equipment?

SIR HENRY THORNTON: No, on the American lines we do, but not in Canada.

MR. HANSON: This provides for no replacement of depreciated property but new property—where they did not have any property before?

HON. MR. STEVENS: You state that is under the accepted system of accounting chargeable to capital?

SIR HENRY THORNTON: Yes, and any additions to the property.

HON. MR. STEVENS: It might be used to improve the maintenance of way; it struck me as extreme to charge it all to capital.

SIR HENRY THORNTON: We have no recourse; that is the way it must be done. Then \$770,000 for a larger freight terminal; \$440,000 for a larger passenger terminal; \$744,000 for ordinary tracks and business sidings, and \$1,600,000 for subways, overhead bridges, and grade separations; \$1,473,000 for new locomotives and new shopbuilding; \$3,112,000 for additional telegraph lines and equipment of which a part was for the purpose of the Western Union lines

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in the maritime provinces; \$3,652,000 for additions to hotels and new hotels. There are a large number of items running from a few thousand dollars up to two or three hundred thousand.

Hon. Mr. STEVENS: And do I understand that all of these are capital expenditures?

Sir HENRY THORNTON: All of these are capital expenditures and must be charged to capital under the accounting rules.

Mr. HANSON: These are the Interstate Commerce Commission rules?

Sir HENRY THORNTON: Yes, and also the rules of our own Railway Commission.

Mr. CANTLEY: What does the acquisition of the telegraph lines in the maritime provinces amount to?

Sir HENRY THORNTON: \$1,103,000.

Mr. HANSON: That is the total purchase price, and has been paid?

Sir HENRY THORNTON: Yes.

Mr. HANSON: Why have you not taken possession?

Sir HENRY THORNTON: Since 1924, negotiations have been under way for the purchase of the land, line and facilities of the Western Union Telegraph Company in Nova Scotia, New Brunswick and Prince Edward Island. These negotiations were completed in 1928 and the property will be turned over to the Canadian National Railways as soon as the Western Union has finished its facilities for handling the cable business. It is expected that will be done some time in June 1929.

Mr. HANSON: You took over their staff?

Sir HENRY THORNTON: Yes, except the cable lines.

Hon. Mr. STEVENS: I note in the following paragraph the words "Funded debt". In view of the fact that the entire \$35,000,000 was used, why should it not be included in the funded debt?

Mr. COOPER: That portion was not used as of December 31st.

Hon. Mr. STEVENS: It says here that on December 1st, \$35,000,000 was issued, but there was a holdback of \$8,666,000, and I am asking why if the issue was made on December 1st it would not be reflected in the funded debt?

Mr. COOPER: There was an issue of \$35,000,000, but the arrangement with the underwriters was that they would only take the \$26,000,000 in 1928 and leave \$8,666,000 for 1929. They were actually outstanding, as far as our company was concerned, on December 31st; they were authorized but not issued.

Hon. Mr. STEVENS: That is not in harmony with the statement here. You have various expenditures in the 1928 budget, \$21,000,000, which takes up all the \$35,000,000; now how can you have the expenditure under the 1928 budget and the carry-over of half a million or more into the 1929 budget?

Mr. COOPER: We had not drawn the \$35,000,000 down; we had drawn \$21,000,000 down. We only take sums into our accounts as they are drawn down.

Hon. Mr. STEVENS: Is that statement which we were analyzing a moment ago incorrect?

Mr. COOPER: No we do not draw down money in advance of expenditures.

Hon. Mr. STEVENS: Leave that for a moment and turn to the next page, and I find there is an item of \$40,000 borrowed from the banks, just as you say, and there is the item for \$22,000,000, and the retirement of considerable debentures stock, which is of course quite all right; an expenditure incurred

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during the nine months to December 31, 1927, of \$5,900,000. And an expenditure made under the 1928 budget of \$11,000,000 or \$40,000,000. And then it goes on to say that it is intended that during the present year, 1929, long-term financing will be arranged under which moneys provided by the bank, as above, will be repaid. Now you have arranged to take care of the 1928 budget. Then you say there are \$8,000,000 not yet drawn on that on December 31st.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And then you have \$40,000,000 here, part of it in 1928, expenditures made under the 1928 budget of \$11,000,000, and you propose to make an issue of \$40,000,000 securities to cover that.

Mr. COOPER: Yes, the \$40,000,000 is simply for temporary financing, and when it is replaced by permanent financing—

Mr. HANSON: I do not think Mr. Cooper has got Mr. Stevens' point yet.

Hon. Mr. STEVENS: Put it in this way, when you make the issue of \$35,000,000, why are you not reflecting that in the funded debt and showing available on the other side of the account, unexpended \$8,666,000

Mr. COOPER: Would you mind turning to pages 14 and 15?

Hon. Mr. DUNNING: I was wondering whether the eight millions was still in the temporary financing on December 31st?

Mr. COOPER: No, but in making the issue of \$35,000,000 those bonds are prepared and signed and placed in the delivery office; but our arrangement in this particular case, was that up to December 31st, there should be only \$26,000,000 actually taken up by the underwriters.

In our accounting we would create a liability \$35,000,000, and we would charge the underwriters with \$25,000,000 and we would show in existence the \$8,000,000.

Hon. Mr. STEVENS: Where would you show that \$8,000,000?

Mr. COOPER: In the balance sheet, counting for balance sheet purposes only the amount of securities in the treasury not issued at December 31st, would be deducted from the gross amount which was originally set up, the net amount of funded debt outstanding being simply the bonds which had been actually issued by the company and delivered, as at the date when the balance sheet was made out. If we had made a balance sheet of January 3rd, the whole \$35,000,000 would have been there.

Hon. Mr. STEVENS: You could have shown the \$8,000,000 as still in the hands of the underwriters, as an asset, if you liked?

Mr. COOPER: If you care, I will show you the regulations under which we work, which state what we should do in a case such as that.

Hon. Mr. STEVENS: Leaving that for a moment, and going to the \$40,000,000, is your \$8,666,000 carried over in any way reflected in this \$40,000,000 which you borrowed from the banks?

Mr. COOPER: No. The \$35,000,000 is permanent, while the \$40,000,000 is not. Out of the \$35,000,000 we got twenty-one and one half of the 1928 budget; and out of the \$40,000,000 temporary financing we got \$11,000,000 on the 1928 budget; that is \$32,800,000. Our operating results were so much better than the estimate that we probably did not spend it, and we will not draw down the full amount of the \$35,000,000.

Hon. Mr. STEVENS: Now, the \$8,666,000 you say, is in the hands of the underwriters?

Mr. COOPER: At Dec. 31st.

Hon. Mr. STEVENS: Not released?

[Mr. H. T. Cooper.]



Mr. COOPER: No, not then.

Hon. Mr. STEVENS: But the money for which that was issued was spent on this \$21,000,000 cited by Sir Henry a few moments ago, in the purchase of equipment, and so on?

Mr. COOPER: Yes, sir.

Hon. Mr. STEVENS: That was actually expended in 1928?

Mr. COOPER: But you will remember that it belongs to the full \$35,000,000.

Hon. Mr. STEVENS: I asked a while ago what that \$21,000,000 was, and Sir Henry gave us a long statement of expenditures included in the \$35,000,000. How could you have paid out the \$8,666,000 if the bonds had not been released by the underwriters and were still in the hands of the underwriters?

Mr. COOPER: I tried to explain that we do not spend money as it is released by the underwriters. We spend money in advance of its release by the underwriters.

Hon. Mr. STEVENS: Where is that reflected?

Mr. COOPER: In our general capital.

Hon. Mr. STEVENS: And it is not included in the \$40,000,000.

Mr. COOPER: In the \$40,000,000 there is \$11,000,000 of the 1928 budget.

Hon. Mr. STEVENS: Would that include the \$8,000,000.

Mr. COOPER: No, sir.

Mr. CANTLEY: I would like to ask if that \$8,000,000 is comparable with the amount on the next page?

Hon. Mr. STEVENS: No, that is another item.

Mr. CANTLEY: Is it a comparable item?

Mr. COOPER: I do not think you can tie the \$8,000,000 up against the 1928 budget at all. There is \$21,000,000 in the budget.

Mr. CANTLEY: Does the \$8,666,000 appear the next year in the same manner as the \$35,000,000 appears this year as expenditures made the year previously?

Mr. COOPER: No, I was trying to explain that the \$8,000,000 does not necessarily relate to the 1928 budget. Only \$21,000,000 was under the budget, and we had drawn down \$26,000,000. It is quite conceivable that we have drawn \$21,000,000 of the \$26,000,000 on account of the budget; and that the \$8,000,000 which we had not drawn down relates to the branch lines and terminals.

Hon. Mr. STEVENS: I took for granted that it did not relate to that, because that is under certain statutes?

Mr. COOPER: I think I am safe in saying that it does relate to the "Branch Lines and the Toronto Terminals", as distinct from the budget; because the Branch Lines and the Toronto Terminals have not been completed.

Mr. GEARY: What is the total of your 1928 budget?

Mr. COOPER: \$39,000,000.

Mr. GEARY: And that does not cover the Branch Lines Construction and the Toronto Viaduct?

Mr. COOPER: No Sir.

Mr. GEARY: And you have \$39,000,000 appropriated, of which you spent, say, \$8,000,000 less than \$21,000,000, that is about \$12,000,000 that you spent in 1928 out of your 1928 budget?

Mr. COOPER: Altogether we spent on the budget about \$31,000,000 or \$32,000,000. We financed that in this way, we had \$21,000,000 out of the \$35,000,000 bond issue, and we got so much from the banks. We made permanent financing on account of the 1928 budget of about \$28,000,000.

[Mr. H. T. Cooper.]

Mr. GEARY: Which one of those items, Branch Lines Construction, of the 1928 budget has not been expended.

Mr. COOPER: It is certain that the Branch Lines and the Toronto Terminals' program has not been accomplished.

Mr. GEARY: What you are holding out is \$8,666,000 on your Branch Lines and Toronto Terminals construction.

Mr. COOPER: Yes.

Mr. GEARY: And you are not charging yourself with that as funded debt until you take it up?

Mr. COOPER: Until it is actually issued.

Sir HENRY THORNTON: I might say that the state of the money market was such that it would have been inadvisable to have gone into the market with any issues of a considerable size, and we thought it preferable to arrange temporary financing at such a rate of interest as we could get, and wait to make our permanent issues until the money market was such as would permit us to borrow at a lower rate of interest. Everybody does that. It was much better to pay a little higher rate of interest for twelve months than to saddle ourselves with a higher rate of interest for fifteen or twenty years.

Hon. Mr. STEVENS: Of that I have not any criticism at all; that is a matter of management.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: By arrangement with the underwriters for a large sum, there must have been some definite arrangement, and with some purpose in view, why it was done. Who were the underwriters, and where is the \$8,666,000 reflected?

Mr. COOPER: We did not take it down because we did not need it.

Mr. GEARY: You did not want to pay interest on it?

Sir HENRY THORNTON: We are doing our best on both sides to make this clear.

Hon. Mr. STEVENS: I am not trying to embarrass you at all.

Sir HENRY THORNTON: You do not embarrass me in the least, and we are all doing our best to see if we cannot make it clear.

Hon. Mr. STEVENS: I do not think I am unusually stupid?

Sir HENRY THORNTON: No, I am not criticizing you but we are all trying to make it clear.

Hon. Mr. STEVENS: I have asked two questions, first, why was the \$8,666,000 held out, and second, if it was held out, where do you reflect the \$8,666,000 in some other part of your statement?

Sir HENRY THORNTON: In other words, why and where? Can you answer that, Mr. Cooper?

Mr. COOPER: No, I cannot give the reason why we did not make a full issue as of December 31. It is obvious to me that we did not actually need the money. As to why we do not show it in some other part of the statement, it was not actually issued at December 31, and the balance sheet is a statement as of that date.

Hon. Mr. STEVENS: But it was arranged.

Mr. COOPER: We sold the bonds piecemeal, and we only sold \$28,000,000 in 1928.

Hon. Mr. STEVENS: Who were the underwriters?

Sir HENRY THORNTON: That was issued to Blair & Company under competitive bidding.

[Mr. H. T. Cooper.]



Hon. Mr. STEVENS: And they took the total issue?

Mr. HANSON: But not all at one time. The only confusion, I think, is that you charge up the whole liability as of December 31, 1928, when as a matter of fact you had not this all outstanding, and he wants to know where the system is for the difference.

Mr. COOPER: No, we did not charge the full amount as a liability. Will you look at page 28, and go back if you will to page 15. We show funded debt unmatured \$977,000,000 on the balance sheet, on page 15.

Mr. HANSON: That is the total on page 15?

Mr. COOPER: That shows \$977,000,000 of debt outstanding on December 31. That is detailed on pages 28 and 29; on the left-hand side of that, about half-way down you will see an issue of 40-years guaranteed gold bonds outstanding at December 31 of \$26,334,000, and we state that, so that there will not be any misunderstanding and say that that is part of the \$35,000,000 issue, balance sold January 3, 1929.

Mr. HANSON: That is plain enough, and anybody can understand that, but that does not answer what I am getting at. Why the \$13,500,000?

Sir HENRY THORNTON: I was going to make this suggestion, Mr. Stevens, if it is agreeable to you, if you like to do so, Mr. Cooper will sit down with you at some time and try to make this clear to you.

Hon. Mr. STEVENS: I do not want to appear so dumb.

Sir HENRY THORNTON: On the other hand, we do not want to appear so dumb in our explanations that we have not been able to make it clear to you. We want to make it as clear as crystal. I have no objections to continuing, by all means, but I thought perhaps it might be more convenient for you. You need not worry about anybody being dumb about these accounts, because I can tell you that there are a lot of us who are dumb in that respect, because they are intricate and hard to follow.

Mr. McLEAN (Melfort): That \$31,000,000 is not part of the \$40,000,000?

Sir HENRY THORNTON: No, \$21,000,000 of it.

Mr. GEARY: Will you tell me how you financed that \$25,000,000 between October and December 31st, 1928? You arranged it with the bank in 1928, and you had spent it in 1927. How did you finance it in the meantime?

Mr. COOPER: Out of our working capital.

Mr. GEARY: How much did your working capital amount to, roughly?

Mr. COOPER: We had \$18,000,000 of cash at December 31, 1928.

Mr. GEARY: That is just the ordinary cash receipts which you had to work along on?

Mr. COOPER: Yes, free of course.

Mr. GEARY: Is that a pretty substantial amount for working capital?

Mr. COOPER: I would say that at the present time the working capital is very, very low.

Mr. GEARY: I would say so too.

Mr. CANTLEY: That \$18,000,000 is not net?

Mr. COOPER: No.

Mr. CANTLEY: That is varied by current liabilities which are due day by day?

Mr. COOPER: Yes.

The CHAIRMAN: Any further questions? Traffic.

Sir HENRY THORNTON: I want to answer a question which Mr. Stevens asked a moment ago. I think I have some information here for him.

[Mr. H. T. Cooper.]

The quantity of wheat in Canada on March 31st, 1929, last, amounted to 244,423,005 bushels, an increase of 18,151,158 bushels over the corresponding date of last year.

The 1929 wheat stocks on hand comprise 171,290,525 bushels in elevators, flour mills and afloat, 60,517,000 bushels in farmers' hands and 12,615,479 bushels in transit by rail.

That has some bearing on the question which Mr. Stevens asked me.

Hon. Mr. STEVENS: Thank you. Might I be permitted one further question which is this; in that temporary financing in October 1928, you provide for \$40,000,000 from the bank to cover certain items, retirements, and so on, on the 1928 budget. Would there be included in that \$40,000,000 the amount which was not provided for as you say, in the \$35,000,000 out of this bond issue?

Mr. COOPER: The \$40,000,000 is made up in this way: \$5,900,000 for the 1927 budget; about \$23,000,000 to retire Canadian Northern Income Charge Debenture Stock; and \$11,351,000 of the 1928 budget. That is the \$40,000,000.

Hon. Mr. STEVENS: It would not contain the \$8,000,000 at all? This \$8,000,000 is provided for in addition to that?

Mr. COOPER: The \$8,000,000 in addition to the \$40,000,000? Yes.

Mr. GEARY: In 1929 you issued \$75,000,000?

Mr. COOPER: In a way you could say we made \$75,000,000 in financing last year, of which \$35,000,000 was permanent and \$40,000,000 was not, and we had not drawn upon the \$8,000,000.

The CHAIRMAN: The \$8,000,000 is in reserve?

Mr. COOPER: The bonds have not actually been sold.

Hon. Mr. STEVENS: What did you get for the \$35,000,000 bond issue?

Mr. COOPER: The price to the public was \$96; that is a yield of 4.72.

Mr. HANSON: From the underwriters or from you?

Mr. COOPER: What the public paid for them.

Hon. Mr. STEVENS: What did you get for them?

Mr. COOPER: The railways sold them for \$94.16.

Mr. HANSON: Do you absorb the discount in that particular year?

Mr. COOPER: No, sir.

Mr. HANSON: You spread it over the term of the bonds?

Mr. COOPER: Yes, sir.

Mr. McLEAN (Melfort): What was the cost of that money to you?

Mr. COOPER: 4.82.

Mr. GEARY: You just amortize this over forty years?

Mr. COOPER: Over the life of the security?

Mr. HANSON: That is your regular practice?

Mr. COOPER: On a straight line amortization basis, yes.

Mr. GEARY: That means that when you have finished your financing this year, you will have \$75,000,000 outstanding which will have covered the items in the 1928 budget, including the whole Toronto terminal.

Mr. COOPER: This will cover \$5,900,000 for the 1927 budget; \$22,728,000 to retire Canadian Northern Income Charge Securities; \$11,351,000 for the 1928 budget; Toronto Terminal and branch lines, \$13,500,000 and \$21,500,000 for the 1928 budget.

Mr. GEARY: As of December 3rd, 1928?

Mr. HANSON: And will be reflected in an increased capital investment of over \$40,000,000.

[Mr. H. T. Cooper.]



Mr. COOPER: The \$75,000,000 will not be a net addition to the funded debt.

Hon. Mr. CHAPLIN: Less \$2,000,000.

Mr. COOPER: More than that. We pay off between \$6,000,000 and \$7,000,000 of Capital Trust Certificates each year.

Hon. Mr. DUNNING: The net increase is ascertainable from the accounts anyway?

Mr. COOPER: Yes. In 1928 there was a decrease in funded debt of \$3,400,000; there was an increase of short term notes of \$43,500,000, so it was a net increase of about \$40,000,000.

Mr. GEARY: You will be charged with \$75,000,000 after your financing next year?

Mr. COOPER: Yes.

Mr. GEARY: You will not have \$8,666,000 in cash, because you will have to spend that to catch up, broadly speaking.

Mr. COOPER: No.

Mr. GEARY: That will just catch you up until December 31st?

Mr. COOPER: Yes; that will be going out as the work is completed.

The CHAIRMAN: Are there any further questions?

Hon. Mr. STEVENS: I would suggest that where an expenditure is not made it should not be shown as an expenditure. I was taking it for granted these expenditures were made and provided for, as you show them. You say a portion of that has not been expended?

Mr. COOPER: No.

Hon. Mr. STEVENS: I was taking it for granted that it was expended.

Mr. COOPER: This memorandum indicates in a general way what financing we did in 1928.

Mr. HANSON: There is a difference between the accounting side and the financial side.

Hon. Mr. STEVENS: Surely.

Sir HENRY THORNTON: "Traffic," "Telegraphs," "Insurance," "Colonization."

Hon. Mr. STEVENS: In regard to colonization; there is a clause there which says: "The decrease in British immigrants is partly accounted for by delays resulting from the regulations under which they were recruited." What is the meaning of that?

Sir HENRY THORNTON: The decrease in the movement of British people was due largely to the time consumed in connection with the regulation regarding investigation, medical examination, and so forth, and although the reduced rate was continued in 1928 the long delays occurring before the warrants were finally issued resulted in many cases in the applicants withdrawing their applications and deciding not to go. The decrease in the movement of British families under the three thousand family scheme was due to the fact that suitable farms in Canada were not available for their accommodation. In cases where the British families were large and had not sufficient capital to settle on land of their own, difficulty is experienced in Canada in placing them, as the average Canadian farmer who could give them employment has not the facilities to house them.

Hon. Mr. STEVENS: The first part of that refers to what I asked in my question, that is, the regulations were such that many intending immigrants abandoned their intention to come to Canada because of the onerous nature of these regulations.

[Mr. H. T. Cooper.]

Sir HENRY THORNTON: I do not know whether one could say "the onerous nature of these regulations," but at any rate the regulations were such that speedy action became difficult, if not impossible.

Hon. Mr. CHAPLIN: There were changes made in the regulations?

Mr. GUERTIN: There have been substantial changes in the regulations.

Hon. Mr. CHAPLIN: What was the nature of the changes?

Mr. GUERTIN: Additional facilities granted for medical inspection, a return, I believe, to the system under which additional doctors are provided.

Hon. Mr. STEVENS: British doctors?

Mr. GUERTIN: Yes.

Hon. Mr. STEVENS: Do you know how many?

Mr. GUERTIN: I have no record of the number. Then the simplification of the forms in use.

Hon. Mr. STEVENS: These long forms are used to fill out?

Mr. GUERTIN: Yes.

Hon. Mr. STEVENS: Do they still have a civil examination?

Mr. GUERTIN: Yes, they do, but it is much more simple.

Mr. GEARY: As a matter of fact, the European immigrants increased under the regulations, while the British immigrants decreased?

Mr. GUERTIN: During 1928?

Mr. GEARY: Yes.

Mr. GUERTIN: True.

Mr. GEARY: You lost thirty-two hundred British—

Hon. Mr. DUNNING: If one may go back a bit, following the sittings of the committee last year on immigration, certain changes were recommended by the committee, and I think it was after that period that the changes in the regulations were made effective, and probably would affect one half of the—

Mr. GUERTIN: The changes were made about the middle of the recruiting season. They would hardly be reflected in the 1928 business.

Hon. Mr. STEVENS: How is it this year?

Mr. GUERTIN: We note some improvement—a slight increase.

Mr. GEARY: Under your auspices these European immigrants come in, and at least so many are Britishers. Is that not rather a misstatement. I did not know that Great Britain was in Europe.

Sir HENRY THORNTON: Is not Great Britain in Europe?

Mr. GEARY: I am not speaking geographically. You do not include them as a rule.

Sir HENRY THORNTON: We segregate the British immigrants, yes.

Hon. Mr. DUNNING: "Of these" are the words used.

Mr. GEARY: The Britishers are part of the European immigrants.

Hon. Mr. CHAPLIN: The continent is by itself.

Sir HENRY THORNTON: I am afraid I do not quite catch Mr. Geary's point.

Mr. GEARY: You start by saying that during the year forty thousand European immigrants excluding British harvesters, and then you say "Of these five thousand six hundred and fifteen were Britishers." You do class them all to begin with as Europeans.

Sir HENRY THORNTON: Yes.

Mr. GEARY: That is not quite true, is it, as a matter of fact?

[Mr. H. T. Cooper.]



Sir HENRY THORNTON: Well, I don't know. We have certain immigrants who come from the United States. I think we should designate those who come from the continent of Europe as European immigrants; I think it is perfectly correct to do that.

Mr. GEARY: Great Britain is on the continent of Europe.

Sir HENRY THORNTON: One might suspect it, at least. Geographically I would say that unquestionably Great Britain would be considered a part of the continent of Europe.

Mr. GEARY: When you leave Great Britain, to where do you speak of going? To the continent. It is always distinguished from the rest of Europe.

Sir HENRY THORNTON: That is a popular expression which is used in England.

Mr. GEARY: The English people do not regard themselves as Europeans, they speak of going to the continent.

Hon. Mr. DUNNING: Not quite as you mention it: "From the island to the continent."

Sir HENRY THORNTON: We do distinguish them later on, because the statistics include British immigrants.

Mr. GEARY: England occupies a position of splendid isolation.

Mr. HANSON: When do we meet again?

The CHAIRMAN: I am in the hands of the committee.

Hon. Mr. DUNNING: In as much as the Canadian National officers are practically all here, I think for their benefit it would be desirable to keep the committee going. I would suggest that we meet to-morrow morning.

The CHAIRMAN: We will sit again to-morrow at eleven o'clock.

The committee adjourned until April 18th, at eleven o'clock.





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Canada Railway and Shipping  
Committee 1929

SESSION 1929

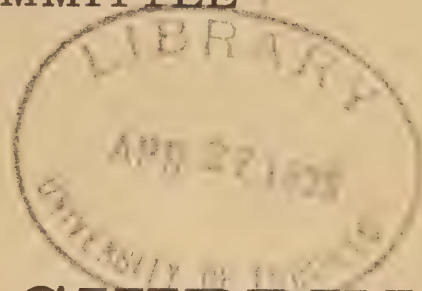
HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING



MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2—TUESDAY, 23rd APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. Hazen, Assistant Chief Engineer, Canadian National Railways.

Mr. W. U. Appleton, General Manager, Atlantic Region, Canadian National Railways.

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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1929





## MINUTES OF PROCEEDINGS

ROOM 375, HOUSE OF COMMONS,  
THURSDAY, 18th April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government was scheduled to meet to-day at 11 a.m.

As a mark of respect to the memory of Hon. J. W. Edwards of Frontenac-Addington, who died this morning, the Committee did not convene.

The Committee will meet on Tuesday, 23rd April, at 11 a.m.

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ROOM 375, HOUSE OF COMMONS,  
TUESDAY, 23rd April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., Sir Eugene Fiset, Chairman, presided.

*Members present:* Messrs. Bell (St. Antoine), Cantley, Duff, Dunning, Geary, Gray, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

*In attendance:* Sir Henry W. Thornton, President, Canadian National Railways, with members of his staff.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

### ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

Typewritten replies were submitted by Sir Henry Thornton to several questions asked at the last meeting by members.

Consideration of the Report was resumed, and the following items, as contained on pages 9 and 10, were called for discussion, viz: Land Sales. Purchasing and Stores. Industrial Department. Pensions. European Traffic. Grand Trunk Western Consolidation. Central Vermont. West Indies Trade Agreement.

### CANADIAN NATIONAL RAILWAYS SYSTEM. ANALYSIS OF 1928 OPERATING EXPENSES AS COMPARED WITH 1927

Commencing at page 1, this analysis was read and discussed, section by section, up to and including "Train Enginemen" on page 7.

At 1 p.m., the Committee adjourned until to-morrow, 19th instant, at 11 a.m.

JOHN T. DUN,  
*Clerk of the Committee.*





## MINUTES OF EVIDENCE

Room, 375, HOUSE OF COMMONS,

APRIL 23, 1929.

The Select Special Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: When we adjourned at the last meeting we were considering the report of Sir Henry Thornton to the Minister and had stopped at "Land Sales." Sir Henry, will you go on from there?

Sir HENRY THORNTON: I think perhaps before I continue it would be best to answer the questions asked at the last meeting, in order to clear up the old business. Mr. Stevens asked this question: "What was the carry-over of grain at January 1, 1928, as compared with that at January 1, 1927?" I have a statement here which I will file with the reporter and it may be included in the minutes, answering that question. It is as follows:

CANADIAN WHEAT SITUATION DEC. 31ST, 1927 AS COMPARED WITH DEC. 31ST, 1928.

	In farmers' hands (bushels)	In country elevators (bushels)	In other elevators (bushels)	Total (bushels)
Dec. 31, 1927.....	105,000,000	46,000,000	112,000,000	263,000,000
Dec. 31, 1928.....	102,000,000	61,000,000	166,000,000	329,000,000

Carry-over at the end of the calendar year 1928 was greater than the 1927 carry-over by 66,000,000 bushels, of which greater amount 12,000,000 bushels had not yet started its rail movement and 54,000,000 bushels had partially completed its rail movement.

The next question which Mr. Stevens asked was what proportion of the gross freight revenue in 1928 is chargeable to the products of the soil. That question can not quite be answered in the form it was put, but this is as near as I can get it. "The estimated gross earnings accruing from products of agriculture on the Canadian National Railways in 1928 represented 26 per cent of the freight revenue. Agricultural products made up 40 per cent of the revenue ton mileage of the system."

Then someone—I cannot quite remember who it was—asked for some information with respect to the Hudson's Bay Railway. I think Hon. Mr. Dunning or Mr. Henry has that.

The CHAIRMAN: I think it was decided that that was to be brought before the other Committee.

Hon. Mr. DUNNING: Perhaps I misunderstood, but I thought the arrangement was that we were to clear up the Canadian National matters and then have available information regarding the Canadian National work for the government on the Hudson's Bay, so as not to interrupt the continuity of our work.

Sir HENRY THORNTON: The next item is "Land Sales," "Purchases and Stores," "The Industrial Development," "Pensions." That latter gives a list of the officers and employees who have retired with 50 or more years of service. "European Traffic," "Grand Trunk Western Consolidation."

Hon. Mr. STEVENS: Just at that point, Sir Henry: could you lay on the table at a future meeting, if you have not it now, a copy of the report given to the Inter-State Commerce Commission by the Grand Trunk Western and its allied lines—of all those American lines, their regular reports to the Inter-State Commerce Commission?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Could you give us a brief outline of the reorganization, without disclosing anything which would interfere with your plans?

Sir HENRY THORNTON: Yes. The Grand Trunk Western Railway is owned entirely by the Grand Trunk, now the Canadian National Railways. It consists of a number of subsidiary companies, I think thirteen in number. Those companies were controlled through stock ownership, and in some cases, leases, but preserved their separate corporate identity. It involves a great deal of accounting work. It was an awkward and cumbersome way to administer the affairs of the company and it prevented the Grand Trunk Western from making that showing which its financial performance merited; consequently, we thought it would be highly desirable to amalgamate all of these companies into one and reorganize the whole financial position of the company, so as to put the parent company in a position to realize upon and capitalize the very satisfactory financial showing which the Grand Trunk Western has made in the last few years, a showing that was, of course, largely to be charged to the tremendous impetus given in the peninsula of Michigan to the manufacture of automobiles. Therefore, that work was undertaken and petitions are now before the Inter-State Commerce Commission, having been approved by the States of Michigan and Indiana, to bring about that consolidation. It makes no actual difference in the control of the Canadian National Railways over these properties, but it brings order out of chaos and produces a materially more efficient organization and a better financial structure. That, briefly, is what was undertaken.

Hon. Mr. STEVENS: You mentioned that the Grand Trunk, or the Canadian National, own all the stock of the Grand Trunk Western. Does the Grand Trunk Western own all of the stock of these subsidiary companies?

Sir HENRY THORNTON: That is substantially a correct statement.

Hon. Mr. STEVENS: There is not much held outside?

Sir HENRY THORNTON: No. There are certain shares of certain small subsidiary companies which ought to be acquired for the protection of the parent company, but substantially your statement is correct.

Hon. Mr. STEVENS: Of course, the bonds will be refinanced under the new structure?

Sir HENRY THORNTON: They will go to the public eventually.

Hon. Mr. STEVENS: You propose a reconstruction of the financial structure?

Sir HENRY THORNTON: Yes. I might say en passant that the Grand Trunk Western is one of the most profitable properties we have, and is a very important factor in our annual financial performance.

Hon. Mr. STEVENS: You will have filed these statements to the Inter-State Commerce Commission?

Sir HENRY THORNTON: Yes. The next is "West Indies Trade Agreement".

Hon. Mr. STEVENS: How is it working out?

Sir HENRY THORNTON: It is not really under way as yet. The last boat is about ready for operation, but it will be another two or three months before the full service is in operation.

Hon. Mr. STEVENS: I am told that they are very comfortable boats.

Sir HENRY THORNTON: I think they are. The only criticism I have heard of them is that they are rather too good for the trade, but I do not think they are. I think as far as passenger accommodation is concerned, we shall undoubtedly develop a very large passenger business between the West Indies

[Sir Henry W. Thornton.]



and Canada. In fact, during the winter time we shall probably have more passengers than we shall have space for, as it does represent the best service between the North American continent, including the United States, and the West Indies.

Mr. GEARY: What opposition have you there from Halifax?

Sir HENRY THORNTON: The most serious opposition which we have is a line of steamships which is operated by the International Aluminum Company between British Guiana and the Saguenay river, for the purpose of transporting bauxite. That being the ore from which aluminum is recovered, to the International Aluminum Company's works in that district. The line was put on primarily for the purpose of handling this bauxite.

Mr. GEARY: Which way does that go?

Sir HENRY THORNTON: It comes north. The result is that that steamship company carries freight between Canada and certain parts of the West Indies at ridiculously low rates, and it is this competition which we shall have to face. I dare say we shall work out of it in some way or other, but you can see what it means.

Mr. CANTLEY: They are going down in ballast?

Sir HENRY THORNTON: They will carry most anything they can get for nothing.

Mr. POWER: Do they carry passengers?

Sir HENRY THORNTON: No, I do not think so.

Mr. GEARY: What fruit receiving facilities have you in Halifax? My recollection is that there was a great deal required to be built there for the reception and storage of, say, bananas.

Sir HENRY THORNTON: There is a very good cold storage plant at Halifax, which is not only for fruit, but for anything which requires that form of treatment. The bulk of our shipments, of course, will be bananas, which will move from ship to cars, and will require very little, if any, storage.

Mr. GEARY: Have you had to put special cars on for that trade?

Sir HENRY THORNTON: Yes, we have had to provide refrigerator cars which are heated in the winter and cooled in the summer.

Mr. GEARY: The United Fruit business does not get any of this?

Sir HENRY THORNTON: Not yet. We do not quite know what the position of the United Fruit Company will be, but we do not anticipate any very serious competition from them, although we are prepared for it if it should appear. I might say that the bulk of the bananas will come from Jamaica, and the Jamaica producers will use our ships entirely.

Mr. GEARY: How have these bananas been routed heretofore?

Sir HENRY THORNTON: Mostly through New York.

Mr. GEARY: Water to New York, and rail to destination?

Sir HENRY THORNTON: Yes, although some may come up through New Orleans.

Mr. GEARY: Are they all coming through by Canada now?

Sir HENRY THORNTON: That is what we hope to accomplish.

Mr. GEARY: You have not quite reached that point as yet?

Sir HENRY THORNTON: The service has not been going long enough. In fact, the first ship to Jamaica will be there in a day or two. The other ships have been running to the eastern group of islands. There are two services, one

[Sir Henry W. Thornton.]

which serves the eastern group and one which serves the western group; that is to say, Jamaica and British Honduras. The western service is now commencing, and that is the service from which we expect the bulk of the bananas.

Mr. GEARY: It has been a passenger service largely to the eastern group?

Sir HENRY THORNTON: Yes, but there has been a fair amount of fruit moving there. There ought to be and will have to be a great deal of propaganda work done in the West Indies to promote the raising of better and greater varieties of fruit. These colonies are susceptible to very wide extension in their fruit and vegetable production. They have never had facilities in the past; there has never been any incentive or any particular urge for producers in that part of the West Indies to meet the Canadian trade. Now that we have this implemented by the new service one of the things we shall have to do will be to join hands with the colonial governments and with the producers and assist them in every way we can to diversify and add to their fruit and vegetable production; and I think if that problem is undertaken energetically and intelligently we shall not only promote greater traffic for our own steamship line, but we shall also very materially assist the West Indian planters in their own production.

Mr. CANTLEY: Is it your intention to bring these bananas to Halifax or Montreal?

Sir HENRY THORNTON: In the summer time the banana ships will run to Montreal.

Mr. CANTLEY: Do you think that is wise?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: I doubt that very much.

Sir HENRY THORNTON: Well, I don't see anything else to do.

Mr. CANTLEY: You will employ your ships for about ten days' additional voyaging than if you go to Halifax. You can certainly beat that time by rail.

Sir HENRY THORNTON: Time is not so large a factor with the cold storage facilities we have on the boats.

Mr. CANTLEY: You have your cold storage and your refrigerator cars.

Sir HENRY THORNTON: That would mean transferring the load, and I think Montreal is preferable.

Mr. CANTLEY: You will have to transfer the great bulk of it in Montreal. They cannot consume the whole cargo.

Sir HENRY THORNTON: No; it will have to be shipped from Montreal elsewhere.

Mr. CANTLEY: Some of it will go east from Montreal?

Sir HENRY THORNTON: Undoubtedly.

Mr. CANTLEY: Why not ship it from the east in the first place?

Sir HENRY THORNTON: We think it cheaper and better to do it the other way.

Mr. CANTLEY: We will see.

Sir HENRY THORNTON: We are open to conviction. We both have convinced each other in the past that we were right or wrong, as the case might be.

Hon. Mr. DUNNING: The most serious factor apparently is the putting on of this line of steamers for the bauxite trade, which introduces a type of competition which was not expected.

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: It is not competition in a way, because it means that these boats are travelling and they may as well go full as half full and consequently they take on loads at practically ballast prices.

Hon. Mr. STEVENS: That is, one way?

Sir HENRY THORNTON: Yes, and the other way too, because bauxite does not entirely complete the cargo north-bound. They have a certain amount of space which can be used for general freight north-bound.

Mr. CANTLEY: It is a question of the dead weight exceeding the space, and they might as well have light freight. I do not know what they might bring up, but it is one-way business. Their business is to carry bauxite, and if they are going down right, any freight they take will only involve the cost of loading and handling.

Mr. POWER: At what ports do the bauxite vessels stop?

Sir HENRY THORNTON: I do not know exactly, but at a certain number of ports in the British West Indies for freight purposes.

Mr. POWER: From which port in Canada would they take freight to the West Indies?

Sir HENRY THORNTON: They take some paper from Chicoutimi, and they take loads from St. Lawrence river ports.

Mr. POWER: You mean below the mouth of the Saguenay?

Sir HENRY THORNTON: Yes.

Mr. POWER: They do not go above the Saguenay?

Sir HENRY THORNTON: No.

Mr. POWER: Do they stop anywhere in the maritimes?

Sir HENRY THORNTON: I do not think so. This discussion might better come up under the Government Merchant Marine, when we will have the officers of the Merchant Marine here, and they can answer those questions in better detail than I.

Mr. POWER: It is not quite clear to me how they compete with your vessels if they do not stop at Halifax.

Sir HENRY THORNTON: I can tell you more about that to-morrow, but I think if you will not mind we might let that stand until the Merchant Marine people are here.

That completes the items, Mr. Chairman.

The CHAIRMAN: Shall Sir Henry's report to the Minister be accepted?

Hon. Mr. STEVENS: We are not quite through with that question of finance. I am not necessarily pressing that to-day, but I would just as soon leave the question open for a little while. We cannot carry the report at this time.

Hon. Mr. DUNNING: There is no necessity for carrying Sir Henry's report to the Minister.

Hon. Mr. STEVENS: No, but I do not want to be told later on that the discussion is closed.

Mr. GEARY: Will you explain to me the difference in the operating ratio between that shown in your report and that shown in the Deputy Minister's report. Your operating ratio is 78.89 as against 78.75, and the increase in the operating ratio was shown in the Deputy Minister's report as 83.59, which I believe includes the Eastern Lines.

Sir HENRY THORNTON: This report includes the Canadian National Railways without the Eastern Lines, and that operating ratio includes the Eastern Lines.

[Sir Henry W. Thornton.]

Mr. GEARY: In your yellow and blue you have not the operating ratio carried out.

Sir HENRY THORNTON: No, it is simply a matter of a little arithmetic.

Mr. GEARY: So the operating ratio on the Canadian National Railways, and the one you show, is for the central region, the Grand Trunk Western and the western region.

Sir HENRY THORNTON: The operating ratio is that for which we regard ourselves as primarily responsible.

Mr. GEARY: That simply includes the lines I mentioned?

Sir HENRY THORNTON: Yes.

Mr. GEARY: It does not touch the Eastern Lines at all?

Sir HENRY THORNTON: No. On the bottom of page 51 you will find the operating ratio of the Eastern Lines to be 112.6 per cent.

Mr. GEARY: But you have not shown the combined operating ratio anywhere?

Sir HENRY THORNTON: No.

Mr. GEARY: Then I may take it that the Deputy Minister shows it in his report.

Hon. Mr. DUNNING: I can only presume so. Major Bell prepared that report.

Mr. GEARY: The difference will be accounted for only by the fact that he probably took them all in.

Hon. Mr. DUNNING: This is dealing with a previous year.

Sir HENRY THORNTON: I think that is 1927—

Mr. GEARY: Yes, but you have 1927 in here. You show that in your statement on page 5, and I wondered if you were going to carry it on.

Sir HENRY THORNTON: The Minister's report has the Eastern Lines in it for six months.

Hon. Mr. DUNNING: What I expect has happened here—of course, I cannot speak for poor Major Bell in the matter—but I believe he endeavoured to work out the operating ratio for the whole, taking into account the six months' broken period on the eastern lines.

Mr. GEARY: I wondered if you had checked up on that.

Hon. Mr. DUNNING: I am sure the figures would check with the railway authorities. I can have it checked, if you desire.

Mr. GEARY: I thought if it was worth while treating it that way in the government report, it would be worth while treating it that way in the Canadian National report.

Hon. Mr. DUNNING: There are a number of accounting questions raised.

Mr. GEARY: I would like to know how badly it is changed by reason of the Eastern Lines.

Hon. Mr. DUNNING: There are a number of accounting questions involved. Perhaps Sir Henry might take that into consideration for next year in the presentation of the accounts.

Sir HENRY THORNTON: The theory which the railway administration proceeded upon was that the implementing of the report which resulted in a reduction of freight rates in the maritime provinces created a situation for which the railway administration was not responsible, and therefore we should show these reports, as I explained the other day, in three ways: first, excluding the Eastern Lines; secondly, including Eastern Lines; and thirdly, the Eastern

[Sir Henry W. Thornton.]



Lines alone. It really comes to the same thing if you include in the revenues of the Eastern Lines the appropriation which the government makes on account of the reduction in freight rates. It cancels both ways.

Mr. GEARY: I was wondering if we were getting a perfect picture of it.

Sir HENRY THORNTON: I think you are, because you have it three ways, and you can take it any way you like, either excluding, including or the Eastern Lines alone.

Mr. GEARY: If you would consider the suggestion of the Minister that perhaps next year the blue sheets might contain the operating ratio—

Sir HENRY THORNTON: I can give you that in two minutes. 81.8.

Mr. GEARY: If that is 81.8, you are just about where you were in 1927.

Sir HENRY THORNTON: 1927, was 84.8, and 1928 is 81.8.

Mr. GEARY: That should be a good showing, because you have a full year in 1928, but had only half a year in 1927.

Sir HENRY THORNTON: Yes, that is the whole system; that includes the Eastern Lines.

Mr. GEARY: I would be glad to have Mr. Henry check that up. Sir Henry Thornton has it 81.8 this year, and 84.8 in 1927, as against Major Bell's 83.59.

Mr. McLEAN (*Melfort*): Is one for the calendar year and the other for the fiscal year?

Sir HENRY THORNTON: I can tell you what that difference is. This year we merged. Instead of carrying the telegraph department as a separate company, for convenience and for the purpose of economy we absorbed what was the telegraph company into the Canadian National Railways, and carried it as a department of the railway instead of a separate company.

Mr. COOPER: In 1927 it showed the straight tariff revenues, and this year we have entered back as revenue the amount of the 20 per cent reduction. That was a suggestion of Mr. Stevens last year, and was carried out in the accounting.

Mr. GEARY: So for 1928 you charged this account with the 20 per cent you have received from the government?

Mr. COOPER: We credited to revenue the amount of the 20 per cent reduction which we collected from the government. We did not do that in 1927.

Hon. Mr. DUNNING: That probably would account for the difference.

Mr. GEARY: The 20 per cent you paid for their reduced rates was not taken into account.

Hon. Mr. DUNNING: Quite. We assumed that they got 80 per cent of what they ought to get from the shipper and 20 per cent of what they ought to have received from the shippers they received from the government, so the 20 per cent is revenue.

Mr. GEARY: That is a consolidated fund expense to the country.

Hon. Mr. DUNNING: Yes, Parliament votes it every year. That is in the Department of Railway estimates.

Mr. COOPER: You will find it set out on page 44, item 101a.

The CHAIRMAN: And also on page 55, the last item.

Mr. GEARY: That will amount to about \$1,200,000 more this year.

Hon. Mr. DUNNING: All the railroads receiving it treat it in the same way, as freight revenue.

Mr. GEARY: I think that is fair.

The CHAIRMAN: Gentlemen, you have before you the analysis of the 1928 operating expenses as compared with 1927, and have also the details of these operating expenses on pages 18 and 19. Shall we go on with a careful perusal of the analysis, or shall we go on to the details?

[Sir Henry W. Thornton.]

Hon. Mr. DUNNING: The analysis first. We can more readily understand the individual accounts if we have the general analysis.

Sir HENRY THORNTON: As a matter of fact, when you complete this analysis you have practically completed the report. I will ask Mr. Fairweather if he will be kind enough to read the analysis. I presume you desire to have it read and then ask certain questions about it.

Hon. Mr. DUNNING: It is divided into headings, and if the reader would stop at the end of each paragraph, questions could then be put and we would clear it up that way as we go along.

Mr. FAIRWEATHER (Reading):

### CANADIAN NATIONAL RAILWAYS

#### *Analysis of 1928 Operating Expenses as compared with 1927*

In presenting the accounts of the Canadian National Railways last year, those of the Central Vermont Railway were excluded owing to the fact that this Company had been placed in receivership as a result of the disastrous floods which occurred in the fall of 1927. Although a plan of re-organization has been approved by the State Legislature of Vermont, this receivership has not yet been formally terminated. The accounts of the Central Vermont Railway are therefore excluded from those of the Canadian National again this year.

Mr. McLEAN (Melfort): What progress is being made on the recommendation of the road?

Sir HENRY THORNTON: The recommendation has been practically completed, and it is anticipated that the receivership will be listed probably this Autumn.

Mr. FAIRWEATHER (Reading):

Following the procedure of 1927, the income account of the lines east of Levis and Diamond Junction are shown separately, although for convenience, a consolidated income account, including the Eastern Lines, has been compiled and will be found on page 55 of the annual report. In the following analysis the Canadian National figures will be given first and then those of the Eastern Lines will follow.

Mr. GEARY: I was going to say that since you are taking into account the twenty per cent, is there any occasion for separating the Eastern Lines any further?

Sir HENRY THORNTON: I think it gives a better opportunity for comparison when they are separated. It does not really make a great deal of difference, so far as the figures are concerned, but we thought it would give a better picture and permit of more intelligent criticism if we gave the two separately, and I think we have to do so under the Act.

Mr. GEARY: I am speaking of the general showing which is not a matter of the Act at all—such as operating expenses, etc.

Hon. Mr. DUNNING: It is a matter of the Act, for the reason that in addition to the twenty per cent, the Act provides for the Government of Canada to pay to the railways the operating deficits of the Eastern Lines.

Mr. FAIRWEATHER (Reading):

In 1928 a different accounting method has been used in dealing with the revenues and expenses of the Telegraph Department; formerly it was the practice to account for the Telegraph activities as a separately operated property so that only the net result was included in the system

[Sir Henry W. Thornton.]



accounts. This year the revenues and expenses of the Telegraph Department have been consolidated with those of the railway by primary accounts. For convenient reference, the 1927 accounts have been restated on a comparable basis.

The operating expenses of the Canadian National Railways are classified in accordance with the accounting rules of the Dominion Bureau of Statistics, and are divided into 141 primary expense accounts, these being grouped under 7 main heads, with self-descriptive heads as follows:—

(1) Maintenance of Way and Structures.....	40	primary accounts
(2) Maintenance of Equipment.....	24	"
(3) Traffic.....	10	"
(4) Transportation.....	49	"
(5) Miscellaneous.....	5	"
(6) General.....	12	"
(7) Transportation for Investment Cr.....	1	"
Total.....	141	"

Mr. GEARY: The express items have not been segregated, and have not been for years?

Sir HENRY THORNTON: No.

Mr. FAIRWEATHER (Reading): —

The comparison of expenses under these heads for the years 1927 and 1928 follows:

	TOTAL OPERATING EXPENSES		Decrease or increase
	1927	1928	
Maintenance of Way.....	\$43,174,956 45	\$ 48,010,559 17	\$ 4,835,602 72
Maintenance of Equipment.....	44,560,390 31	47,918,236 40	3,357,846 09
Traffic.....	6,734,641 64	7,047,167 70	312,526 06
Transportation.....	100,967,491 59	107,963,695 15	6,996,203 56
Miscellaneous.....	2,237,549 94	2,329,281 21	91,731 27
General.....	6,617,160 92	6,785,668 17	168,507 25
Transp. for Invest. Cr.....	976,506 56	1,806,264 12	829,757 56
	<u>\$203,315,684 29</u>	<u>\$218,248,343 68</u>	<u>\$ 14,932,659 39</u>

Mr. POWER: What does that last item represent?

Mr. FAIRWEATHER: Freight revenue collected by the company for the movement of material used chargeable to capital account. That is, for the construction of a branch line if we ship materials of construction to that branch line, we treat the expenses of handling the stuff as a capital charge.

Mr. POWER: Where do you set out your expenses for the transportation of coal? It would not be in that item?

Mr. FAIRWEATHER: No. The transportation of materials for the company's ordinary use is not charged in that account. It is absorbed in the operating expenses generally.

Mr. McLEAN (Melfort): It will be absorbed in the transportation account?

Mr. FAIRWEATHER: Yes.

Mr. McLEAN (Melfort): In that last item, if you move material for capital investment do you charge a company rate or a general rate?

Mr. FAIRWEATHER: There is a rate fixed for it. I think it is seven mills.

Mr. COOPER: If the tariff rate were lower than seven mills, we would charge the tariff rate.

Mr. GEARY: What are your primary accounts, in general? I think there are only twelve of them.

[Sir Henry W. Thornton.]

Mr. FAIRWEATHER: You will find them in the annual report.

Sir HENRY THORNTON: We will come to them as we go through the analysis.

Mr. FAIRWEATHER: They are in the analysis on page 22. The general rate is dealt with later on.

Mr. GEARY: You do not absorb in that account your overhead and maintenance of way?

Mr. FAIRWEATHER: The general officers would be in this account, but the minor supervisory officers would be in the appropriate account. General expenses are supposed to represent the expenses involved in the general conduct of the company's business.

Mr. GEARY: You do not subdivide them proportionately?

Sir HENRY THORNTON: No. You will find them more or less subdivided in the report.

Mr. FAIRWEATHER (Reading):

The expenses may be further divided for the purpose of comparison, between employees' compensation and other expenses. This comparison follows:

#### EMPLOYEES' COMPENSATION

	1927	1928	Decrease or increase
Maintenance of Way.....	\$ 24,242,126	\$ 26,079,435	\$ 1,837,309
Maintenance of Equipment.....	23,582,400	25,088,758	1,506,358
Traffic.....	3,146,239	3,398,563	252,324
Transportation.....	66,463,198	71,222,686	4,759,488
Miscellaneous.....	1,095,720	1,127,175	31,455
General.....	4,250,971	4,311,344	60,373
	<u>\$122,780,654</u>	<u>\$131,227,961</u>	<u>\$ 8,447,307</u>

Mr. POWER: Have you worked out an average of the wages of the employees?

Mr. FAIRWEATHER: We worked it out, but I have not it available at the moment. It could be readily obtained.

Mr. POWER: It might be interesting to get the average wage of the employees other than those acting in an executive capacity.

Sir HENRY THORNTON: We can easily get that. We can give you the average compensation of all employees excepting those included in the general expenses. Would that meet your point?

Mr. POWER: I think that is what I want.

Hon. Mr. DUNNING: There would be a possible complication there. If it were stated on the annual basis—some of the men do not work all the year.

Sir HENRY THORNTON: We can strike an average which would be quite accurate. Of course, included in that would be a very large number of clerks.

Mr. POWER: I would like to get away from the clerical staff altogether. I suppose then necessarily you would only give me the wages of those who were perhaps members of the brotherhood, we will say.

Sir HENRY THORNTON: We could not separate it on a union basis, because we do not know how many of our men belong to the union. We suspect a very large number do, but there are a number that do not.

Mr. POWER: Do all of your employees belong?

Sir HENRY THORNTON: Not all.

Mr. POWER: All those engaged in operation?

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: You can say that substantially, but you cannot say that every individual does. There may be some who do not.

Mr. POWER: You have an arrangement with your employees?

Sir HENRY THORNTON: Yes, but they do not all belong to the union. You can say this, and it would be substantially correct, that for the purpose of answering your question, substantially all of the employees of the transportation company belong to some union or not. There will be some who do not but the percentage would be relatively small.

Mr. POWER: Leaving that out of the question, I would want those who come under the schedule which is in force by arrangement between you and the brotherhood.

Sir HENRY THORNTON: The answer to that would be the schedule rates, and we can give that to you at any time.

Mr. POWER: I do not suppose you could divide it in any way without considerable trouble, say, those doing the manual work and those doing office work.

Sir HENRY THORNTON: We can probably do that.

Mr. COOPER: We can give it by maintenance of way employees, transportation employees—different classes of employees.

Sir HENRY THORNTON: Is an engine man working with his head or his hands? The answer is that he works with both. What are you trying to get at? If we knew what you had in the back of your mind, we would know what to do.

Mr. POWER: I want to know what the average rate of wages of the employees is on the Canadian National Railways, other than the clerical staff—other than those holding clerical positions.

The CHAIRMAN: He is proposing to give it by classes.

Mr. GEARY: Is it possible for you to give an average rate for the drivers of engines?

Sir HENRY THORNTON: Yes.

Mr. GEARY: There are different classes of drivers? It depends somewhat on the run, does it not?

Mr. BELL (St. Antoine): How do your rates compare with other railroads, such as the Canadian Pacific Railway?

Sir HENRY THORNTON: Practically the same.

Mr. GEARY: When you have a question of wages arising do you treat with the brotherhood or a committee of the men?

Sir HENRY THORNTON: It is the same thing. We deal with a committee of the men, but it is a committee of the brotherhood, and if there is any disagreement the officers of the brotherhood would be immediately called in by the committee to assist them in their negotiations. To all intents and purposes it is a committee of the brotherhood.

Mr. MILNE: How do the rates compare with the Canadian lines and the American lines?

Sir HENRY THORNTON: There has always been a certain spread, a certain differential between the wages paid on the American railways and the Canadian. It is about 5 per cent.

Mr. POWER: Is the so-called McAdoo schedule still in force?

Sir HENRY THORNTON: No.

Mr. POWER: Has it been substantially modified?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: Yes, I should say it had.

Mr. POWER: Is it still in effect in the United States?

Sir HENRY THORNTON: No.

Mr. GEARY: But your wages rise and fall—if they ever fall—more or less relatively with increases and decreases in the United States?

Sir HENRY THORNTON: Unquestionably. We find that to be exactly the case. For instance, we are in this position now; the American railways have given certain increases and we shall have to keep pace with those increases and preserve the present differential. Any wage movement in the United States which affects the general scale of wages on railways is immediately felt by both the Canadian Pacific and ourselves.

Mr. POWER: Has this differential been more or less established in conjunction with your employees?

Sir HENRY THORNTON: I should say that probably that question can be answered in the affirmative as accurately as any other way.

Mr. POWER: You have arrived at this set of wages by agreement with your employees extending over a period of time?

Sir HENRY THORNTON: Yes, the experience over a certain period of years has brought us to this differential which now exists.

Mr. FAIRWEATHER (Reading):

#### MATERIALS AND MISCELLANEOUS

Maintenance of Way.....	\$18,932,830	\$21,931,124	\$ 2,998,294
Maintenance of Equipment.....	20,977,990	22,829,479	1,851,489
Traffic.....	3,588,403	3,648,605	60,202
Transportation.....	33,527,787	34,934,745	1,406,958
Miscellaneous.....	1,141,830	1,202,106	60,276
General.....	2,366,190	2,474,324	108,134
	<u>\$80,535,030</u>	<u>\$87,020,383</u>	<u>\$ 6,485,353</u>

Mr. GEARY: Does that not mean increased employment of men?

Sir HENRY THORNTON: Oh yes. What happens is this: let us suppose that the volume of freight movement increases. That means that immediately a number of firemen are promoted to be engine men, and a number of brakemen are promoted to be conductors, and their places in turn are taken by new men who come into the service, and who in time will move up. The increase in the number of men on the average last year as compared with the previous year was 4,000.

Mr. GEARY: Do the men get any benefit from the increased work available?

Sir HENRY THORNTON: Yes, their monthly earnings become greater because they run more continuously.

Mr. GEARY: So that both factors operate there?

Sir HENRY THORNTON: Precisely, and of course increased traffic means more men to keep up the track, and more cars moving through the yards mean an additional yard clerk here and there, so that an increase in freight movement finds its way into a number of different classifications of employment.

Mr. CANTLEY: With reference to the question of maintenance of equipment: last year you were good enough to give us a memorandum showing the number of wooden cars which you destroyed or retired, and the number still in use. Will you give us that information again?

Sir HENRY THORNTON: Yes, we will be glad to.

[Sir Henry W. Thornton.]



Hon. Mr. DUNNING: That is partly dealt with in this analysis, but perhaps not as completely as Colonel Cantley would require.

Mr. GEARY: May I ask a question here which occurs to me, but which perhaps is not quite relevant to the question under discussion? Formerly, you cited water-borne traffic as being a factor in your competition as regards rates. You do not say anything about that this year. Does that mean that you are not suffering any more? It means in last year's report you commented on the effect of that.

Mr. HENRY: You refer to the competition on the lakes?

Mr. GEARY: Yes.

Mr. HENRY: It is always there and always has an effect.

Mr. GEARY: I was wondering if it was hurting at all at the moment. I remember seeing it somewhere.

Sir HENRY THORNTON: Let me make a note of that, and I will tell you about it to-morrow.

Mr. GEARY: Here we have it, "Our revenues continue to be adversely affected by competition of water carriers; also by motor truck and bus competition."

Sir HENRY THORNTON: That still exists.

Mr. GEARY: Do you consider the motor truck competition a serious one?

Sir HENRY THORNTON: That is a contentious subject. We hear a good deal about competition of motors and buses, but competition between the motor buses and the railway would not be so bad for the railway if the railway could get rid of its short haul freight and passenger trains, even though that traffic went to the road. Where it hits us is that a motor line will be put on there for freight or passengers and they will make a material inroad in our revenues and take traffic away from us, but we cannot temper the wind to the shorn lamb by taking off our trains. We still have to run the trains because we must furnish that rail accommodation to the public. Now, wherever we can we do take off our service, but it is very, very seldom that you can meet the competition and reduce your expenses by taking off service. That is one point of view.

The other point of view which of course is well known is that the railways in general have had a very large freight traffic which originates from the traffic of motor companies, that is to say, automobile manufacturers and all of the indirect and allied traffic which is provoked by the manufacturers of automobiles. Consider, for instance, the Grand Trunk Western. We load every day eight hundred cars of automobiles, and by far the largest percentage of that traffic moves either to the Niagara gateway or through the Montreal and Rouses Point gateway. It represents a very large and lucrative traffic, a traffic which we will be very loathe to lose. If the question were put to any railway officer, "Would you if you could annihilate the whole of the motor business, the manufacture of motor cars?" he would unquestionably say no. We could not afford that at all, so it depends on the point of view.

Mr. GEARY: I think I remember you saying something not very long ago to that effect.

Sir HENRY THORNTON: Yes, I did. The business which accrues to us from the manufacture of automobiles is a highly lucrative and remunerative business which we would dislike to lose, but, like everything else, there is always a crab in everything and one of the crabs is the competition we experience from the use of motor buses, motor cars and automobiles on the highway.

Mr. GEARY: A great deal of that business finds its way to the highways?

Sir HENRY THORNTON: Yes, and unfortunately we cannot meet that in a measurable degree by taking off service.

Mr. GEARY: And your rates are still affected by the water-borne traffic?

Sir HENRY THORNTON: It is like the poor; it will always be with us.

Mr. GEARY: So the elimination of this reference this year does not indicate any change of view?

Sir HENRY THORNTON: No. We mentioned it last year and we supposed that everybody knew it existed and there was no need of mentioning it again.

Mr. GEARY: But there are compensating features in connection with motor buses?

Sir HENRY THORNTON: That is true. You never get everything you want in this world.

Mr. McLEAN (Melfort): You are getting to the stage where you do not want anything you want.

Sir HENRY THORNTON: I have not reached that stage of philanthropic blessedness. We want all the traffic we can get, and will fight for it as hard as we can.

Mr. FAIRWEATHER (Reading):

The increased expense on wage account amounting to \$8,447,307 was brought about by increased employment to the extent of \$7,085,000, made necessary as a result of increased traffic, and to an increase in the average rate of compensation per employee amounting in total to \$1,362,000. There were no wage increases granted in the year 1928, but certain increases granted the previous year operated in 1928 for a full year as compared with a part year in 1927.

The increase in materials and miscellaneous amounting to \$6,485,000 is made up as follows:

Decrease due to price changes.....	\$1,712,000
Increase due to Additional Material.....	8,197,000
Total.....	<u>\$6,485,000</u>

An analysis by class of materials follows:

	Changes in Price		Changes in Quantity
	Increase	Decrease	Increase
Ties.....	\$ 62,000		\$ 215,000
Rails.....	136,000		1,211,000
Coal.....		\$ 757,000	1,713,000
Miscellaneous Material.....		1,003,000	5,058,000
Sales Tax.....		150,000	
Total.....		<u>\$1,712,000</u>	<u>\$ 8,197,000</u>

Mr. GEARY: What does "Miscellaneous Material" mean?

Sir HENRY THORNTON: That means everything else but rails, ties and coal.

Mr. FAIRWEATHER: Do you want me to name some of them here, "air-brakes, axles, batteries, belting, belting compounds, brake beams, brake shoes, casings, cement, coal"—everything.

Hon. Mr. DUNNING: You have only got down to the C's.

Mr. FAIRWEATHER: Yes. The last item is zinc.

Mr. POWER: What is the chief item?

Mr. FAIRWEATHER: That would very likely be lumber or cement—one or the other.

Mr. CANTLEY: Structural steel.

[Sir Henry W. Thornton.]



Mr. FAIRWEATHER (Reading):

Distribution of changes due to price differences is as follows:

	Price Changes	
	Increase	Decrease
Ties.....	\$ 62,000	
Rails.....	136,000	
Coal.....		\$ 757,000
Miscellaneous Material.....		1,003,000
Sales Tax.....		150,000
Total.....		\$ 1,712,000

Mr. POWER: Can you explain the reason for the decrease in the price of coal?

Sir HENRY THORNTON: The answer to that is that the price of coal went down, and probably by more skilful competition.

Mr. POWER: Do you buy your coal in the maritime provinces?

Sir HENRY THORNTON: Yes. I will tell you all about that. I knew that would come up.

Mr. POWER: I only wanted to save you the trouble of answering Colonel Cantley.

Sir HENRY THORNTON: It is rather a shame to steal Colonel Cantley's thunder.

Mr. CANTLEY: There is still plenty of time.

Sir HENRY THORNTON: Mr. Bond is here and can tell us all about coal. What questions would you like answered?

Mr. POWER: I will ask Colonel Cantley to question him about that.

Sir HENRY THORNTON: Colonel Cantley, Major Power passes the buck to you. Do you wish to ask any questions?

Mr. CANTLEY: Not at this time.

Mr. FAIRWEATHER (Reading):

The distribution of changes in expense due to differences in quantities of materials used is as follows:

	Changes in Quantities	
	Increase	
Ties.....	\$ 215,000	
Rails.....	1,211,000	
Coal.....	1,713,000	
Material (Miscellaneous).....	5,058,000	
Total.....	\$ 8,197,000	

In order to make a more effective comparison with previous performance from the point of view of operating efficiency, it has been the practice of the Canadian National Railways to take into account certain of the larger factors causing variation in expense. The principal ones given consideration being changes in the compensation of the average employee, changes in the average price of materials, variations in volume of traffic, and wealthy conditions. The annual report reveals that from the standpoint of gross revenue, there was an increase in receipts amounting to \$27,915,547 compared to the preceding year, and as rate reductions amounting in total to \$908,000 were offered in the year, the comparative volume of traffic shows an increase of \$28,800,000 above that of the previous year. This represents an increase of 11.6 per cent in volume of

transportation rendered to the public. The total operating expenses have been shown to be \$218,248,344 as compared with \$203,315,684 for the preceding year, representing an increase of \$14,932,660, or 7.35 per cent. An analysis giving effect to the factors indicated above reveals that the increase of 11.6 per cent in volume of transportation service was obtained with an increase of 7.8 per cent in equated expenses, which is in exact accordance with modern theory of cost studies of railway operation.

#### MAINTENANCE OF WAY AND STRUCTURES

The first main group of operating expenses is Maintenance of Way and Structures. The expenses under this heading for the year 1928 as compared with the previous year were as follows:

1927.....	\$ 43,174,958
1928.....	48,010,559
Increase.....	<u>\$ 4,835,603</u>

The increase in expense is attributable partly to demands made by increased traffic and partly as a result of continuing the program of improving the track structure where necessary by the application of heavier rail and crushed rock ballast.

Mr. CANTLEY: What has been done in the matter of replacing wooden trestles with steel?

Sir HENRY THORNTON: Mr. Hazen will answer that question.

Mr. HAZEN: During the year there were 89 trestles eliminated by filling, totalling 15,498 feet, and replaced by steel or concrete, 4 trestles totalling 761 feet.

Sir HENRY THORNTON: Mr. Hazen, give Colonel Cantley the total number of feet of trestle replaced either by filling or by permanent structures.

Mr. HAZEN: 16,253 feet.

Mr. CANTLEY: Track feet?

Sir HENRY THORNTON: Yes. Does that answer your question?

Mr. CANTLEY: The first part of it.

Sir HENRY THORNTON: How much?

Mr. CANTLEY: How much of the original trestles remain unreplaced.

Mr. HAZEN: We had some trestles in our reconstruction last year. What we built totalled 7,021 feet. The total number of timber trestles at the end of December, 1928, was 3,219, totalling 413,736 lineal feet, an equivalent of 78.35 miles.

Mr. CANTLEY: How did that compare with a year ago?

Mr. HAZEN: There were 16,200 feet eliminated, 7,000 added. There are 9,000 feet less.

Mr. CANTLEY: What is the average age of a trestle?

Mr. HAZEN: That would be hard to answer, because they are replaced from time to time.

Mr. CANTLEY: What is the age of the oldest one?

Mr. HAZEN: The oldest timber trestle would be about fourteen or fifteen years.

Mr. CANTLEY: Is that not about the ultimate life?

Mr. HAZEN: Yes.

Mr. CANTLEY: So there will be large replacements due in the near future?

[Sir Henry W. Thornton.]



Mr. HAZEN: Some of them would last only ten or twelve years.

Sir HENRY THORNTON: The replacement is going on year by year.

Mr. CANTLEY: I would be glad to have a memorandum of that information.

Mr. DUNNING: It will be in the record.

Mr. GEARY: Are they replaced only because of deterioration?

Mr. HAZEN: No, not altogether, although we do not replace any until they are deteriorated.

Sir HENRY THORNTON: We would not tear out a perfectly good wooden trestle and replace it with steel until the life of the wooden structure was nearly exhausted.

Mr. GEARY: Or until it became obsolete due to the increased weight of traffic?

Sir HENRY: Those cases would be relatively few.

Mr. CANTLEY: You have increased the weight of the rolling stock very considerably.

Mr. HAZEN: And that necessitated the replacement of some structures.

Sir HENRY THORNTON: Some, but not a large number.

Mr. HAZEN: We can strengthen the wooden trestles to meet any increase in loading.

Mr. CANTLEY: It is a pretty big question. At one time you had an enormous quantity of them.

Sir HENRY THORNTON: It is a problem, but is one which every new railway has to meet. It exists, I believe, on the C.P.R. and most other railways.

Mr. CANTLEY: My object was to find out how far you would go toward meeting that.

Sir HENRY THORNTON: It is not a problem which gives us any great anxiety.

Hon. Mr. DUNNING: There were over 100 miles in 1923, and that has been cut down, even including additions, to 78 miles. There is a substantial and progressive reduction there.

Mr. McLEAN (Melfort): And a much larger mileage of road.

Sir HENRY THORNTON: There is a considerable sum chargeable each year to progressive elimination of wooden structures, and it will continue for many years.

Mr. GEARY: It is a current account; not a capital expenditure?

Sir HENRY THORNTON: If you renew it with steel you have to charge to Capital the difference in cost of the renewal in kind and the renewal with steel.

Mr. GEARY: You have no depreciation account set up to which that can be charged?

Sir HENRY THORNTON: No. That is taken care of by the annual renewals which are running into very substantial figures.

Mr. CANTLEY: You credit an amount for betterments, do you not?

Sir HENRY THORNTON: No, you charge it to Capital.

Mr. GEARY: Then credit your account with what you would take out, and your plant account, roughly speaking, increases by the difference?

Sir HENRY THORNTON: Yes.

Mr. COOPER: Write out the old structure and write in the new one.

Mr. JELLIFF: In your new branch line construction you are using more permanent material.

Sir HENRY THORNTON: That is a matter of judgment. There are some cases where this should be done; in other cases, it should not.

[Sir Henry W. Thornton.]

Mr. CANTLEY: With timber increasing in cost, cement and steel are decreasing?

Sir HENRY THORNTON: That is undoubtedly a fact. The increased cost of timber has made more attractive the change to permanent structures.

Mr. GEARY: You credit the Plant account with the original or book cost of the structure?

Mr. COOPER: Yes, and charge that to operating expenses less salvage.

Mr. GEARY: You also take the salvage into account.

Mr. COOPER: Into the stock account.

Mr. GEARY: The charge you make to your operating account is just the book cost less salvage.

Mr. COOPER: Yes.

Mr. BELL (*St. Antoine*): Under this general heading, this question might as well be asked now as later: in your traffic running north and south, originating at United States points, and shipped by American railways, what revenue does the Canadian National Railways get from that traffic when it reaches your line, and what charges are made in general against the foreign lines when they are on your line in Canadian territory?

Sir HENRY THORNTON: Do you mean how much gross revenue is derived from traffic which is moved over the line of the Canadian National system from one point in the United States to another?

Mr. BELL (*St. Antoine*): No, terminating in Canada, and what is the basis of figuring that revenue?

Sir HENRY THORNTON: That is all on the basis of an agreed division with the American railways with respect to the application of the tariffs. These proportions are all worked out and have been in existence for many years. They may vary from time to time, but not much.

Mr. GEARY: Were not the pulp people at you recently for a through rate?

Sir HENRY THORNTON: That resulted, as I recall it, from the movement of pulp from Canada to certain points in the United States. It is rather an intricate question and I will ask Mr. Pullen to explain that.

Mr. PULLEN: That was a question as to whether the United States lines were to apply their local rates from the border to the American destinations, and that question has not been settled yet. We do not know just what will take place eventually, as some of the American roads feel that they should have their full proportion of their local rates. The Canadian lines claim that they should not, and that is the way the thing stands to-day. How it will eventually work out, we do not as yet know.

Sir HENRY THORNTON: There have been a number of meetings and conferences held to try to reach an understanding.

Mr. GEARY: If they had their way it would result either in decreased proportions to the Canadian road, or increased through rates.

Mr. PULLEN: That is right.

Mr. BELL (*St. Antoine*): I was trying to ascertain first of all how these rates are fixed. Are they fixed by the Board of Railway Commissioners in regard to moving foreign traffic over your lines?

Sir HENRY THORNTON: They are fixed by negotiations between the traffic departments of the respective railways—of the delivering and receiving railways.

Mr. BELL (*St. Antoine*): When you say "they are fixed," would it be possible for your rates to be lower or higher than the rates of, we will say, the Canadian Pacific?

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: No, because if they were lower or higher the railway which was the higher would find itself immediately affected and would have to meet the competitive rate.

Mr. BELL (St-Antoine): That does not come up.

Sir HENRY THORNTON: There have been no cases that I can recall.

Mr. HENRY: Generally speaking, Mr. Bell, there is an international rate structure which governs the movement of traffic between the two countries.

Mr. McLEAN (Melfort): Is that largely based on the mileage in the two countries?

Sir HENRY THORNTON: That is based on the factors which govern all freight rates, which no one has as yet discovered.

Mr. GEARY: I was thinking, when this came up that there was some suggestion last year that we have a sort of informal international Board of Railway Commissioners—Inter-State Commerce Commission.

Hon. Mr. DUNNING: The more I look into it, the less I like it.

Sir HENRY THORNTON: The more of these kind of bodies we have the lower our freight rates seem to become.

Mr. GEARY: That is on this side?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Then perhaps we had better have one.

Sir HENRY THORNTON: You may have it, if you want it; it will only mean that we will make that much less money.

Mr. GEARY: What you mean, Sir Henry, is that they get unfairly low?

Sir HENRY THORNTON: They might.

Hon. Mr. DUNNING: And a good many other factors, I am sure, would occur to your mind.

Sir HENRY THORNTON: The next states how the increase was made up.

Mr. FAIRWEATHER: (Reading):

This increase is made up of:—

	Decrease in Average Rate of Compensation or Price	Increase in Quantity	Net
Labour.....	\$ 335,565	\$ 2,172,874	\$ 1,837,309
Material.....	27,471	3,025,765	2,998,294
Total.....	\$ 363,036	\$ 5,198,639	\$ 4,835,603

There were no changes in rates of pay, but the more effective elimination of overtime and a smaller ratio of supervisory pay to the total made this decrease possible.

Mr. CANTLEY: What do you mean by the ratio of supervisory pay?

Mr. FAIRWEATHER: That is the proportion of the number of officers to the men. (Reading):

An analysis by class of materials follows:—

	Price Changes		Quantity	Net
	Decreases	Increases	Increases	Increase
Ties.....	\$ 62,380	\$ 214,137	\$ 276,517	
Rails.....		135,570	1,211,472	1,347,042
Other Mat. and Misc.....	\$ 225,421		1,600,156	1,374,735
	\$ 27,471		\$ 3,025,765	\$ 2,998,294

[Sir Henry W. Thornton.]

The principal increases and decreases are as follows:—

	Increase
Rails.....	\$ 1,347,042
Track Laying and Surfacing.....	968,277
Roadway Maintenance.....	640,338
Other Track Material.....	591,987
Ballast.....	312,498
Ties.....	276,517
Superintendence.....	224,413
	Decrease
Bridges, Trestles and Culverts.....	\$ 392,498
Removing Snow, Ice and Sand.....	82,054

## RAILS

The increase in rails was due to increase in price of \$135,570 and increased quantity amounted to \$1,211,474.

Mr. CANTLEY: On that, Sir Henry, what weight of rails are you using?

Sir HENRY THORNTON: Hundred pounds.

Mr. CANTLEY: Are there heavier rails now being used?

Sir HENRY THORNTON: I think, if my memory serves me right, that the heaviest rails are about one hundred and thirty pounds to the yard.

Mr. GEARY: Is that the heaviest you use?

Sir HENRY THORNTON: We are using the hundred-pound rail; that is our heaviest rail. That heavy rail to which I refer, one hundred and thirty pounds to the yard, would be used on very heavy traffic divisions on trunk line railways; for instance on the Pennsylvania between New York and Pittsburgh, and the New York Central, probably between New York and Chicago, or something of that sort.

Mr. CANTLEY: The Sydney road, I think, has some one hundred and twenty-seven-pound rails?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Sir Henry, what does it cost per mile to lift sixty or seventy pound rails and replace them with hundred-pound rails?

Sir HENRY THORNTON: We can get that for you.

Mr. CANTLEY: You are doing a lot of it?

Sir HENRY THORNTON: Oh, yes.

Mr. CANTLEY: It must be comparatively easy to get at, and I would like to have some idea of what the comparative cost would be.

Sir HENRY THORNTON: Walter, can you tell us that?

Mr. APPLETON: About \$800 per mile for labour alone.

Mr. CANTLEY: I want to know what it costs to lift the sixty-pound rail, for instance, and replace it with one hundred-pound rails.

Sir HENRY THORNTON: We will get you that information.

Mr. GEARY: The very light rail you would place somewhere else?

Sir HENRY THORNTON: Yes, or most of it would be scrapped.

Mr. BELL (*St. Antoine*): Your new locomotive, of the six thousand class, do they require a heavy rail.

Sir HENRY THORNTON: Yes, it requires a heavier rail for the weight and also the speed; the weight is the greater factor.

Mr. BELL (*St. Antoine*): That factor is steadily increasing?

Sir HENRY THORNTON: Yes.

Mr. BELL (*St. Antoine*): And you are replacing them now with hundred-pound rails?

[Sir Henry W. Thornton.]



Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Has there been any chemical change in the composition of your rails in the last two or three years?

Sir HENRY THORNTON: No.

Mr. FAIRWEATHER (Reading):

#### TRACK LAYING AND SURFACING

Track laying and surfacing, which shows an increase of \$968,227, reflects the increased labour in connection with applying the increased rails, ties and ballast. There was an increase of 2,487,000 man hours in this account.

#### ROADWAY MAINTENANCE

The increase in roadway maintenance of \$640,338 is chiefly due to the increased amount of work in maintaining the railway embankments made necessary as a result of heavy rains in the fall of 1927 and spring of 1928. The program of weed killing on the right-of-way, which has been inaugurated, has led to an expenditure of \$50,000 on chemicals for this service.

Mr. CANTLEY: With what results?

Sir HENRY THORNTON: Quite satisfactory results, Colonel.

Mr. CANTLEY: What chemicals are you using?

Mr. HAZEN: We use Shipman's non-poisonous weed killer.

Mr. CANTLEY: Where do you get it?

Mr. HAZEN: They import it from France and Germany, and mix it out in Winnipeg.

Mr. FAIRWEATHER: (Reading):

#### OTHER TRACK MATERIAL

The increase in other track material of \$591,987 is in line with the increased rail program.

#### BALLAST

Ballast shows an increase of \$312,497, which is due to the application of ballast on 438 more miles of track in 1928 than in 1927—miles ballasted in 1928 being 1,666 as compared with 1,228 in 1927.

Mr. CANTLEY: Sir Henry, how are you solving the question of ballast on the Prince Edward Island Railway?

Sir HENRY THORNTON: I think we bring all of our ballast from the mainland for Prince Edward Island. All the gravel ballast has to come from the mainland. I think Mr. Abbott can give you all the details of that.

In what way do you mean are we solving it, so that I can answer your question—more intelligently?

Mr. CANTLEY: Of course you are aware that the quality of ballast on the Island is very inferior, being largely sand, and I assumed you were doing something to replace that by material from the mainland.

Sir HENRY THORNTON: That is what we are doing.

Mr. CANTLEY: Of the ballast, one sort would be gravel, and crushed rock, which would be something the same; the other would be blast-furnace slag. Have you done anything with blast-furnace slag?

Mr. APPLETON: Yes, we have had some correspondence with the people at Sydney, with regard to the movement of slag ballast for the Island, but on

[Sir Henry W. Thornton.]

account of the facilities and the cost of transportation we have not been able to make very much headway. Within the last three or four years we have moved a good deal of ballast by ferry, roughly about a hundred thousand yards, and we have the main line to Charlottetown and to Sunnyside in very good shape, as far as ballast goes. It is a very expensive proposition as the ballast costs us over two dollars a yard.

MR. CANTLEY: What is the difference in cost between the crushed slag and the gravel which you are able to get?

MR. APPLETON: We would have to pay about forty cents a yard for the crushed slag at Sydney, and then handle it by water, and there would be the cost of transporting it and putting it into the track. While it is a better ballast, we have not been able to make any arrangement with the people.

SIR HENRY THORNTON: How would it compare in cost with the gravel ballast?

MR. APPLETON: The gravel ballast would cost us about ten or fifteen cents per yard on the cars, and the slag would cost us forty cents a yard at Sydney, and it is much further away.

MR. CANTLEY: What is the relative cost of the different types of ballast when you have them on the work?

SIR HENRY THORNTON: Will you answer that Mr. Hazen?

MR. HAZEN: I have that here. Slag ballast costs \$1.16 per cubic yard in the track.

MR. APPLETON: And the other ballast runs about from 70 cents to \$1 according to the length of haul. We are using slag ballast on the Sydney subdivision altogether. Gravel runs from 70 cents up according to the length of haul from the pit.

MR. HAZEN: My figures include everything.

SIR HENRY THORNTON: So that it comes to this that I understand that slag ballast runs \$1.16 per yard, and the other ballast from 60 cents to \$1.

MR. CANTLEY: So that the comparison would be about 90 cents to \$1.16. But weeds will not grow in slag ballast.

SIR HENRY THORNTON: Don't they? They do. I was brought up on slag ballasts. I want to tell you that grass will grow on the head of a bald headed man.

MR. CANTLEY: I would like to get a little to grow on mine.

The life of your sleepers is longer, and you have everything to gain. There is a case where you have to import the ballast from the mainland and I would throw out the suggestion for your consideration. I concede that there is slag ballast and slag ballast.

SIR HENRY THORNTON: I know that. I have seen more slag ballast than anybody else in this room.

MR. HAZEN: That cost of slag ballast is the cost on the mainland.

SIR HENRY THORNTON: There is no question that slag ballast is better than any other form of ballast. But is it better to use the cheaper ballast?

MR. CANTLEY: My suggestion is that where you have to import ballast, as you have to do for Prince Edward Island, if you make the proper arrangements for transportation, I think there is going to be comparatively little difference in the cost.

SIR HENRY THORNTON: If the steel companies will sharpen their pencils and name a figure, we will be only too glad to co-operate with them and see if we cannot use slag ballast.

[Sir Henry W. Thornton:]



Mr. CANTLEY: I am not speaking for the steel companies, but I would suggest that an arrangement might be made.

Sir HENRY THORNTON: We would be very glad to look into it. In principle, I think you and I agree.

Mr. McLEAN (*Melfort*): Could you give us a cost of the slag ballast delivered, on the same basis as the gravel delivered on the Island?

Sir HENRY THORNTON: Supposing, to save time, Mr. Hazen prepares a little statement as to the cost of slag ballast per mile on the Island?

Mr. McLEAN: Seventy cents and up might mean ninety cents, and we would like to have figures on the slag ballast delivered at the same points.

Hon. Mr. DUNNING: It can be made comparative?

Sir HENRY THORNTON: Yes, we will do that. Go ahead.

Mr. FAIRWEATHER (Reading):

#### TIES

Ties show an increase of \$276,517, which was brought about by an increase of 171,592 ties as compared with previous year. There was a slight increase in the average price—creosoted ties increasing from \$1.43 to \$1.51 and untreated ties from 72c. to 77c. The number of creosoted ties applied in the year was 1,485,619 and the number of untreated ties 5,773,431.

“Superintendence.”

Mr. GEARY: Would you mind leaving that item until to-morrow and let me know just what happened in regard to the Toronto situation, because that is chiefly brought about by some things there. I would like to know what happened about the change at the corner of King and Yonge?

Sir HENRY THORNTON: That has nothing to do with this.

Mr. GEARY: Then that is not what I want. If you will at sometime during the meetings of this Committee give me that information I will be obliged.

Sir HENRY THORNTON: Oh yes. Go ahead.

Mr. FAIRWEATHER (Reads):

#### SUPERINTENDENCE

Superintendence shows an increase of \$224,414 brought about by increased rentals for office space, chiefly at Toronto, and an increase in the supervisory staff and rates of pay for same.

#### BRIDGES, TRESTLES AND CULVERTS

Bridges, Trestles and Culverts show a decrease of \$392,498—a decrease of 12 per cent from the previous year.

#### REMOVING SNOW, ICE AND SAND

Weather conditions in 1928 were again favourable and it was possible to hold this account to a minimum figure. The decrease, as compared with the previous year, was \$82,053.

#### MAINTENANCE OF EQUIPMENT

The comparative expenditures of Maintenance of Equipment, 1927 and 1928, are as follows:

1927.....	\$ 44,560,390
1928.....	47,918,236
Increase.....	\$ 3,357,847

[Sir Henry W. Thornton.]

An analysis of the increased expense under this heading, giving effect to changes in prices of material and average rate of compensation shows that the increase of 11.6 per cent in volume of transportation service was obtained with an increase of 7.5 per cent, which is in accordance with the modern theory of cost studies of this group of accounts.

This increase in expense may be analysed as between labour and material as follows:

ANALYSIS OF INCREASED EXPENSE				
	Decrease in Rate of Compensation or Price	Increase in Compensation or Price	Increase in Quantity	Net Increase
Labour.....		\$ 214,059	\$ 1,292,299	\$ 1,506,358
Material.....	\$ 518,320		2,369,809	1,851,489
	<u>\$ 304,261</u>		<u>\$ 3,662,108</u>	<u>\$ 3,357,847</u>

The situation in respect to condition of equipment at end of the year as compared with the end of the previous year is:

	Serviceable 1927	Serviceable 1928
Freight Cars.....	92.9	94.2
Locomotives.....	82.9	80.5

These figures compare favourably with those of Class-1 roads in the United States, and indicate company's equipment is being adequately maintained.

Mr. CANTLEY: What is the explanation of the discrepancy between those two items?

Sir HENRY THORNTON: Those items vary from year to year due to the conditions and circumstances. In general, the figures which have been given there in our report compare very well with what has been accepted first-class railways. The particular point that you ask is how is it that the serviceable locomotive in 1927 was 82.9, and in 1928 80.5. That is not a serious matter. That is an ordinary fluctuation. I will ask Mr. Thompson to answer that in a general way.

Mr. THOMPSON: The figure for 1927 was rather high, and the 80 per cent may be regarded as the necessary fluctuation from time to time in the program; but both figures are well within ordinary practice.

Mr. CANTLEY: Thank you.

Mr. FAIRWEATHER (Reading):

The principal increases and decreases in the primary accounts under this heading are:

	Increases
Freight Train Car Retirements.....	\$ 1,173,249
Freight Train Car Repairs.....	951,089
Steam Locomotive Repairs.....	901,252
Work Equipment Repairs.....	263,968
Passenger Train Car Repairs.....	239,625
Depreciation U. S. Lines.....	119,142
	Decreases
Steam Locomotive Retirements.....	\$ 440,448

#### FREIGHT TRAIN CAR RETIREMENTS

The largest increase is in freight train car retirements which shows an increase of \$1,173,249. This is brought about by heavy retirements which are effected in the year—4,438 system cars were retired as compared with 2,957 in 1927.

[Sir Henry W. Thornton.]



Mr. CANTLEY: That is certainly in the right direction.

Mr. FAIRWEATHER (Reading):

#### FREIGHT TRAIN CAR REPAIRS

Freight Train Car Repairs show an increase of \$951,089. This represents an increase of 6.2 per cent over the 1927 expense and was to be expected in view of the increased traffic.

#### STEAM LOCOMOTIVE REPAIRS

Steam Locomotive Repairs increased \$901,252. This represents an increase of 6.2 per cent, which is in line with the increased traffic.

#### WORK EQUIPMENT REPAIRS

Work Equipment Repairs increased \$263,968 due to more extensive repairs to this class of equipment and to an increase of 437,481 work train miles as compared with the previous year.

#### PASSENGER TRAIN CAR REPAIRS

Passenger Train Car Repairs show an increase of \$239,625, which is largely due to the increase of 7,902,174 passenger train car miles as compared with the previous year.

#### DEPRECIATION UNITED STATES LINES

Depreciation of equipment on United States Lines increased \$119,142. This increase is caused by the application of depreciation percentages for the full year 1928 on equipment purchases made during 1927.

#### STEAM LOCOMOTIVE RETIREMENTS

Steam Locomotive Retirements show a decrease of \$440,448. The number of system locomotives retired in 1928 was 49 compared with 97 in 1927, a decrease of 48.

Mr. McLEAN (*Melfort*): Perhaps at this stage, Sir Henry, you might tell us whether you spent some money on buying or hiring cars to move the crop last year.

Sir HENRY THORNTON: Yes, the account will show that we spent more money for borrowed cars for the movement of traffic in 1928 than in the previous year—an increase of two million dollars.

Hon. Mr. DUNNING: That is shown on page 17 of the accounts.

Mr. McLEAN (*Melfort*): We will come to that later on?

Hon. Mr. DUNNING: Yes, that is in the accounts.

Mr. CANTLEY: What was the total loss in the passenger traffic last year, as compared with the previous year?

Sir HENRY THORNTON: That is a pretty hard thing to get at, Colonel.

Mr. CANTLEY: You gave us the figures at around six millions, I think, about two years ago.

Sir HENRY THORNTON: I can give you some figures perhaps to-morrow or the next day about that. Go ahead.

Mr. FAIRWEATHER (Reading):

[Sir Henry W. Thornton.]

## TRAFFIC

The comparative expenditures in 1927 and 1928 for traffic expenses are as follows:

1927.....	\$ 6,734,642
1928.....	7,047,168
Increase.....	<u>\$ 312,526</u>

An analysis of this increase as between labour, material and miscellaneous is as follows:

	Increase
Labour.....	\$ 352,324
Material.....	60,202

The principal increases and decreases of the primary accounts are:

Outside Agencies.....	\$ 138,902
Advertising.....	85,276
Colonization.....	40,200

The increased expense in advertising and in outside agencies is due to a general strengthening of the traffic soliciting organization.

Mr. CANTLEY: What is meant by "Outside Agencies"?

Sir HENRY THORNTON: That is agencies off the line of the railway.

Mr. FAIRWEATHER (Reading):

## TRANSPORTATION EXPENSES

The comparative expenses of conducting transportation in 1927 and 1928 are as follows:

1927.....	\$100,967,492
1928.....	107,963,695
Increase.....	<u>\$ 6,996,204</u>

These figures represent the transportation expense applicable to the movement of all traffic including the cost of moving materials for construction work on capital accounts.

An analysis of the increase in expense, taking into account variations in the average rate of compensation and changes in the price of material, shows that the increase of 11.6 per cent in traffic was obtained with an increase of 6.4 per cent in the equated expense. Since the modern theory of cost analysis would indicate an increased expense of 9.8 per cent, it will be seen that the performance on transportation account is quite creditable and represents an economy due to more efficient operation of \$3,180,000 as compared with the previous year.

The analysis of this increase as between labour and material is as follows:

	Price Changes	Increase in	Net	
	Increase	Decrease	Quantity	Increase
Labour.....		\$1,270,270	\$3,489,218	\$4,759,488
Material.....	1,080,757.....		3,317,473	2,236,716
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		\$ 189,513	\$ 6,806,691	\$6,996,204

[Sir Henry W. Thornton.]



Mr. CANTLEY: You said that the decrease was due to decreased compensation—is not that due to better handling?

Sir HENRY THORNTON: It means that less money in the total was paid. No wages were reduced, but it means that we handled the business with fewer men.

The CHAIRMAN: And less part time.

Mr. FAIRWEATHER (Reading):

The principal items of increase by primary accounts are as follows:

Fuel for Locomotives.....	\$955,819
Train Enginemen.....	911,957
Trainmen.....	762,136
Train Supplies and Expenses.....	737,240
Station Employees.....	583,325
Telegraph and Telephone.....	522,805
Yard Conductors and Brakemen.....	382,279

#### FUEL FOR LOCOMOTIVES

The increase in fuel for locomotives of \$955,819 is divided between fuel for yard locomotives and fuel for road locomotives—the increases in which respectively were \$329,521 and \$628,298. This increase of \$955,819 is made up of an increase of \$1,713,035 due to the greater quantity of fuel consumed which is partially off-set by a decrease in the average price, the effect of which is a decrease of \$757,216.

#### TRAIN ENGINEMEN

The increased expense of \$911,957 is partly accounted for as the result of wage increases to enginemen granted in 1927 and operative in 1928 for a full year as compared with only a portion of 1927. The balance of the increase is in line with the increase in traffic.

The CHAIRMAN: It is now one o'clock. We will meet to-morrow at eleven. We will be compelled to meet in Room 268 on the main floor.

The Committee adjourned till Wednesday, April 24, 1929, at 11 a.m.





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Canada, Railways and Shipping  
Standing Committee 1929

SESSION 1929

HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3—WEDNESDAY, 24th APRIL, 1929

## WITNESSES:

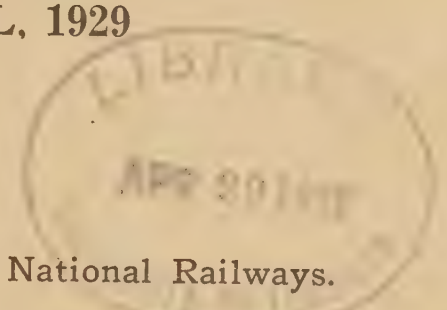
- Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Canadian National Railways.
- Mr. T. H. Cooper, General Auditor, Canadian National Railways.
- Mr. F. W. Fairweather, Bureau of Economics, Canadian National Railways.
- Mr. W. U. Appleton, General Manager, Atlantic Region, Operation and Construction Department, Canadian National Railways.
- Mr. S. J. Hungerford, Vice-President, Operation and Construction Department, Canadian National Railways.

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1929







## MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

Room 268,

24th April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Bell (*St. Antoine*), Cantley, Chaplin, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (*Melfort*), Milne, Stevens.

*In attendance:* Sir Henry W. Thornton, President, Canadian National Railways, with members of his staff.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Replies were furnished by Sir Henry Thornton to several questions asked at the last meeting of the Committee.

### CANADIAN NATIONAL RAILWAYS SYSTEM. ANALYSIS OF 1928 OPERATING EXPENSES AS COMPARED WITH 1927

Consideration was resumed at "Train Enginemen" on page 7. The remainder of page 7, and all of page 8, having been read and discussed, the last two pages, viz.: "Analysis of Operating Expenses Eastern Lines" were read. Lengthy discussions took place on several of the items.

### ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

Pages 41 and 43, "Eastern Lines," were reviewed and discussed.

By permission of the Committee, Mr. Adshead, M.P., asked a question.

At 12.50 p.m., the Committee adjourned until to-morrow, 25th instant, at 11 a.m.

JOHN T. DUN,

*Clerk of the Committee.*





# MINUTES OF EVIDENCE

ROOM 268, HOUSE OF COMMONS,

April 24, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Order, gentlemen. There were certain questions asked yesterday to which I think Sir Henry has the answers this morning.

Sir HENRY THORNTON: Colonel Cantley asked what the loss was on passenger service last year. The loss on the Canadian National Railway system was \$6,337,916.21.

Mr. CANTLEY: No material difference between that and the preceding year?

Sir HENRY THORNTON: Very much the same. Colonel Cantley also asked how many wooden cars are in service at the present time and how many such cars were retired from service last year. The answer to that is:

	Cars in Service at Dec. 31, 1928
Wooden.. . . .	8,047
Wooden, with metal draft arms.. . . .	42,763
Total.. . . .	<u>50,810</u>

	Cars retired during the year 1928 and not replaced in kind
Wooden.. . . .	1,989
Wooden, with metal draft arms.. . . .	1,795
Total.. . . .	<u>3,784</u>

Colonel Cantley asked the total cost of replacing 67 pound rails with 100 pound rails, per mile. The answer to that is:

Cost per mile chargeable to Capital.. . . .	\$ 4,224
Cost per mile chargeable to Maintenance.. . . .	<u>7,152</u>
Total cost.. . . .	\$11,376

Colonel Cantley asked the cost of gravel ballast versus the cost of slag ballast as applied to lines on Prince Edward Island. The answer is:

	Total cost of Ballast under ties
Gravel ballast.. . . .	\$2.26 per cu. yd.
Slag ballast (if moved by water).. . . .	2.62 per cu. yd.
Slag ballast (if moved by rail).. . . .	2.80 per cu. yd.

Mr. Power asked the average wage for employees other than executives. We have had to give that on an hourly basis as we could not work it out accurately on a daily basis. There are a number of figures on this answer which I will not read, but the sum of it is that the average hourly rate in 1928 was 59.8 cents per hour; in 1927 it was 59.2.

Mr. GEARY: That includes engineers and so forth?

Sir HENRY THORNTON: It includes everybody except the so-called officers.

Mr. GEARY: So your labouring wage would be 43 cents an hour?

Sir HENRY THORNTON: There is a lot more detail which Mr. Power desired, but I did not read it. The statement may be included in the record.

## QUESTION ASKED BY MR. POWER, APRIL 23, 1929

Q. What is the average wage for employees, other than executives—A.

	Average number of employees		Total compensation		Average hourly rate	
	1928	1927	1928	1927	1928	1927
Professional, clerical and general..	15,665	15,249	\$ 23,597,618	\$ 22,329,263	\$.611	\$.596
Maintenance of Way and Structures	28,978	27,359	32,599,530	31,033,746	.433	.439
Maintenance of equipment and stores	27,732	26,992	40,645,370	38,374,657	.619	.613
Transportation (other than train, engine and yard) . . . . .	19,205	18,630	27,150,415	25,861,857	.528	.519
Transportation (yard masters, switchtenders and hostlers) ..	965	965	2,087,024	1,987,328	.790	.759
Transportation (train and engine service) . . . . .	15,425	14,674	38,810,502	35,979,446	.916	.906
All employees (excluding officials) . . . . .	107,970	103,869	\$164,890,459	\$155,566,297	\$.598	\$.592

Mr. Stevens asked for copies of annual reports to the Inter-State Commerce Commission filed by all the companies of the Grand Trunk Western Lines and for a copy of the petition to the Inter-State Commerce Commission in connection with the proposed consolidation. They are here on the table.

The CHAIRMAN: At the adjournment we were about the middle of page 7. Mr. Fairweather, will you continue your reading?

Mr. FAIRWEATHER (reading):—

#### *Trainmen*

Trainmen show an increase of \$762,136, which is largely due to increased expense on account of increased traffic.

#### *Train Supplies and Expenses*

Train Supplies and Expenses show an increase of \$737,240. An increase in this account is to be expected in view of the increased traffic.

#### *Station Employees*

Station Employees show an increase of \$583,325. Of this increase \$334,000 is due to the effect of increase in rates of pay granted in 1927 operative for the full year 1928 as compared with a portion of 1927.

#### *Telegraph and Telephone*

Telegraph and Telephone operation shows an increase of \$522,805, of which increase in rates of pay amount to \$97,000. The balance of the increase is due to the large increase in commercial telegraph business.

#### *Yard Conductors and Brakemen*

Yard Conductors and Brakemen show an increase of \$382,279, and was to be expected in view of the increased traffic.

#### *Miscellaneous and General*

The comparison of expenses under miscellaneous operations for the year 1927 and 1928 is as follows:—

1927 . . . . .	\$ 2,237,550
1928 . . . . .	2,329,281
Increase . . . . .	\$ 91,731

Mr. CANTLEY: An increase of how much?

Mr. FAIRWEATHER: Increase in our service—more diners (reading):—

Dining and Buffet Service shows an increase of \$173,538, which was to be expected in view of the increased service rendered.



Accounts for Restaurants, Grain Elevators and Producing Power sold show decreases of \$32,066, \$20,188 and \$27,189 respectively.

### General

The expenses coming under the head of general expenses in 1927 and 1928 compare as follows:—

1927.. . . . .	\$ 6,617,161
1928.. . . . .	6,785,668
Increase.. . . . .	\$ 168,507

Pension—the only item to show a large increase—shows an increase of \$126,234. This is due to an increase of 178 in the average number of pensioners, the figure for 1928 being 1,945 as compared with 1,767.

### Transportation for Investment—Cr.

Transportation for Investment Cr., which represents the cost of transportation service incurred in connection with moving materials for capital account and which is deducted from the operating expenses and is charged to capital compares in the two years as follows:

1927.. . . . .	Cr. \$ 976,507
1928.. . . . .	Cr. 1,806,264
Increase.. . . . .	Cr. \$ 829,757

The greater activity in the carrying on of new construction and additions and betterments in 1928 as compared with 1927 accounts for this increase.

Sir HENRY THORNTON: Now, with respect to the other sheets. They represent the Eastern Lines.

Mr. CANTLEY: Just before we go on, I would like to ask the President in regard to the case of rails, for instance, coming from Sydney: what is your practice with regard to the freight chargeable on these rails from the mills to the points where they are used? You buy them delivered at the mills?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: What is your practice with regard to the rails?

Mr. VAUGHAN: If they are for maintenance there is no charge for freight, but the proportion chargeable to Capital would carry the usual charge, which I think is seven-tenths. In connection with the rails we buy from them delivered at Port Arthur, the price at Port Arthur includes the freight rate. They freight them to Port Arthur or Fort William. Any rails we buy from the British Empire Steel Corporation for delivery on western lines—they pay the freight, and our price includes the freight delivered on cars at the head of the lakes.

Mr. CANTLEY: What about Sydney to Truro, or Sydney to Moncton, or Sydney to Riviere du Loup?

Mr. VAUGHAN: There is nothing charged there except the proportion chargeable to Capital account. All our prices are either f.o.b. mill, f.o.b. Fort William or f.o.b. Vancouver.

Mr. CANTLEY: Take the case of Sydney, where it is f.o.b. mill: where is the freight rate absorbed? Does it go into the cost of re-railing the road and ultimately into Capital account?

Mr. VAUGHAN: The proportion chargeable to Capital account would carry the seven-tenths rate.

Mr. CANTLEY: Do you carry your rails from Sydney to points on the Moncton division and give the road no credit for the freight?

Mr. VAUGHAN: The road gets no credit except the proportion chargeable to Capital account.

Mr. GEARY: That is, the rails which go to Maintenance carry no freight?

Mr. VAUGHAN: No.

Mr. CANTLEY: The freight from Sydney to wherever they are used goes into the Capital account?

Mr. VAUGHAN: Only in so far as it is chargeable to Capital account. If we replace an 85 pound rail with a hundred pound rail, the difference in the cost would be chargeable to Capital account, and we would apportion to that part the seven-tenths rate. If we replaced an 85 pound rail with another 85 pound rail, there would be no charge.

Sir HENRY THORNTON: Perhaps I can make it clear in this way. If the rail is used for maintenance there is no freight charged. If it is used for capital that portion of the additional weight of the rail carries a freight rate of seven mills per ton per mile, and that is chargeable to Capital.

Mr. GEARY: In the case Mr. Vaughan has just suggested, replacing an 85 pound rail with a new 85 pound rail, if the old rail is worn out, the new rail is all Capital.

Sir HENRY THORNTON: Not all capital.

Mr. GEARY: You said it was all capital.

Mr. COOPER: We were speaking of a bridge structure.

Sir HENRY THORNTON: I think I can make that clear to you. If we renew an 85 pound rail with a 100 pound rail we charge to Maintenance what it would have cost to renew that rail in kind and weight, and we charge the excess weight, whatever the cost may be, to Capital. With respect to bridges: if we remove a wooden trestle and replace it with steel we charge to Maintenance what it would cost to renew that in kind, and charge the excess cost of the steel structure to Capital. In other words, the theory is that anything which is even academically an addition to property is a betterment, and is charged to Capital. Anything which strictly pertains to Maintenance is chargeable to Maintenance.

Mr. GEARY: How much is an 85 pound rail worth?

Mr. VAUGHAN: At the mill they are worth \$40 a ton.

Mr. GEARY: What do they primarily cost? Supposing it was \$40; in your Plant account you would charge \$40?

Mr. COOPER: No.

Mr. GEARY: It is destroyed?

Mr. COOPER: No. We do not interfere with the book cost to the extent that the plant is replaced in kind. It is the additional weight at current prices only which is charged to the Capital account.

Mr. GEARY: No matter if your book cost was \$40 originally, you put in the \$46 but you do not change your Plant account?

Mr. COOPER: No.

Mr. GEARY: You do that in the case of freight cars?

Mr. COOPER: Yes.

Mr. GEARY: You do not use that system all the way through?

Mr. COOPER: No. It is the practical application instead of theory. It would be almost impossible to identify the cost of a tie or a rail, so the theory gives way to practical application in rails, ties, and things of that nature.

Sir HENRY THORNTON: The practice we are following is the practice which is universal on all railways.

Hon. Mr. STEVENS: In replacing rails?

Sir HENRY THORNTON: On the whole system of accounting.



Hon. Mr. STEVENS: I thought it was the practice in the United States to retire by depreciation.

Sir HENRY THORNTON: There is one practice in the United States and another in Canada. We are dealing with some practices universal in Canada, but must necessarily follow the accounting provisions of the Interstate Commerce Commission in the United States. What I wanted to say was that the accounting practices of the Canadian National Railway in Canada and the United States respectively are in accordance with the practices of the railways in those respective countries. We embark upon no new accounting method or policy.

Mr. GEARY: In the United States you set up a depreciation account?

Sir HENRY THORNTON: That is required by law.

Mr. GEARY: You have to account for each rail in the depreciation account?

Mr. COOPER: In the United States the depreciation account relates only to equipment.

Sir HENRY THORNTON: There is one point perhaps you would like to know. We absorb in expenses the cost of creosoting ties. I simply mention this as a matter of information.

Mr. CANTLEY: Why do you do that? Because you think it is an experiment?

Sir HENRY THORNTON: No; chiefly because it is a conservative method of handling the accounts. The creosoting of ties has long ceased to be experimental.

Mr. CANTLEY: Your remark suggested that perhaps it was.

Sir HENRY THORNTON: I do not see how you can put that interpretation on it.

Mr. CANTLEY: If it increases the life of the tie why should it not go into Capital?

Sir HENRY THORNTON: It is a maintenance figure, and is the usual practice on all railroads.

Mr. GEARY: There would be no real difficulty in taking care of your rails. Every yard of telephone wire is taken care of in that way, and every pole.

Mr. COOPER: The Interstate Commerce Commission issued an order in November, 1927, relating to the application of Depreciation accounting on all railway property. That order has not yet been made effective, but in the order Commissioner Eastman made the statement that the present regulation regarding the charge to Maintenance of replacing rails and ties is wrong. He admits that, and he made the statement that when new regulations were issued the position would be corrected, but in the meantime we are accounting for these things under the regulations now in effect.

Mr. GEARY: At all events, it is the practice here? Are there not some cases in connection with your equipment where you fix a basis on a locomotive, say, per number of thousand pounds, and anything inside of that number is charged to Maintenance, and outside of that is chargeable to Capital?

Mr. COOPER: That was the old Grand Trunk method, but it is not adopted by any roads to-day.

Mr. GEARY: You do not do that?

Mr. COOPER: No.

Mr. McLEAN (Melfort): I see that the dining car and buffet service has increased in cost to the extent of \$173,000. Does that service carry itself?

Sir HENRY THORNTON: No; it is conducted at a loss.

Mr. McLEAN (Melfort): Is the loss decreasing?

Sir HENRY THORNTON: I will give you an answer to that later.

Mr. GEARY: Are we going to touch the Eastern Lines? I want to ask a general question on that.

Sir HENRY THORNTON: Perhaps it would be just as well to read that sheet.

Mr. FAIRWEATHER (reading): "Analysis of Operating Expenses Eastern Lines. The operating expenses of the Eastern Lines by general accounts is as follows: Maintenance of Way and Structures in 1927 was \$7,365,243.81; in 1928 it was \$7,997,429.36, an increase of \$632,185.55."

Mr. GEARY: It is a very small increase in comparison with the rest of it.

Mr. FAIRWEATHER: About a 9 per cent increase. For the balance of the system, it is 9 per cent.

Mr. GEARY: Does that include the old Intercolonial?

Mr. FAIRWEATHER: Yes. Generally speaking, we had the same increase on the Eastern Lines as on the rest of the system.

Mr. HANSON: But over a period of years is this increase larger than you have been in the habit of spending on the Eastern Lines in recent years?

Sir HENRY THORNTON: We had better give you a statement of the charges of Maintenance of Way and Structures on the Atlantic region, which is practically the Eastern Lines. For the last six years there was a little difference—

Hon. Mr. DUNNING: It would appear to go up rapidly if you took it in comparison with the Atlantic region. I suppose the figures may be produced for the Atlantic region alone.

Sir HENRY THORNTON: That is very simple, but the rate would change. The rate would almost certainly be the same in each case. Would you like to have that?

Mr. HANSON: No, I am not particular. That is an answer to my question.

Mr. GEARY: In other words, your Eastern Lines are in about the same state of maintenance and condition as are the lines of the rest of your system?

Sir HENRY THORNTON: Yes, certainly, and they have been very largely improved in the last six years—very materially improved.

Mr. HANSON: You have not put down any rock ballast on the Eastern Lines?

Sir HENRY THORNTON: That is not an expression of comparable maintenance at all. The fact is that we have in the last six years very materially improved the condition of the rolling stock, both passenger and freight, and the condition of the track itself in the maritime provinces.

Hon. Mr. DUNNING: There is no rock ballast on the western region?

Sir HENRY THORNTON: No, there is no rock ballast in the western region and I would not put down rock ballast in the maritimes as yet. The day will come when that will be a wise and proper thing to do, but not now.

Mr. JELLIFF: The rock ballast is mainly between Montreal and Toronto?

Sir HENRY THORNTON: Our purpose is eventually to have a rock ballasted railway from Montreal through to Chicago. That is partly on account of the density and weight of traffic, but largely on account of the nuisance of dust and dirt to passengers on the passenger trains.

Mr. McLEAN (Melfort): Could I have the mileage of the Eastern Lines as against the balance of the system?

Mr. FAIRWEATHER: 3,104 is the total operated mileage of the Eastern Lines, and the total of the Canadian National Railways is 19,364.

Mr. GEARY: I received a letter, to which I am paying no attention, because it was anonymous—



Sir HENRY THORNTON: I often get those myself.

Mr. GEARY: —which states that you are going to have a lot of trouble in connection with that line, the Quebec, Montreal and Southern.

Sir HENRY THORNTON: He is wrong in that.

Mr. GEARY: Is it in good condition?

Sir HENRY THORNTON: It is in fair condition. Of course, it will have to be improved; it is not in as good condition as some other parts of the system, but it is not bad. I get all kinds of advice and assistance from people who know a lot more about the railway business than I do, and I suppose you suffer from the same complaint politically.

Mr. HANSON: As a general rule, the branch lines that you take over are in a very run-down condition?

Sir HENRY THORNTON: I would not say "run-down", but they are not in that condition we would like to see them.

Mr. CANTLEY: So that we will clearly understand, what is the western limit of the so-called Eastern Lines?

Sir HENRY THORNTON: Diamond Junction.

Hon. Mr. DUNNING: The area defined in the Maritime Rates Act.

Sir HENRY THORNTON: You will find a map in the back of the annual report which shows the Atlantic region. Both Diamond Junction and Levis are a little to the west of the end of the brown lines—almost Quebec.

Mr. HANSON: That is the Transcontinental?

Sir HENRY THORNTON: Yes. The western limits of the Eastern Lines are a little bit beyond the end of the brown line.

Mr. GEARY: Your Eastern Lines run considerably to the east of those two points?

Sir HENRY THORNTON: The limits of the western end of the Eastern Lines are as I have stated. If you draw a north and south line through Quebec on that map you would be pretty close.

Mr. GEARY: Part of your Eastern Lines are in the central region?

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: What is the distance from Riviere du Loup to Montreal?

Sir HENRY THORNTON: It is about 303 miles.

Mr. FAIRWEATHER (Reading): "Maintenance of Equipment \$5,556,937.77 for 1927; \$5,664,650.29 for 1928, an increase of \$107,712.52."

Mr. CANTLEY: In regard to that maintenance of equipment; in regard to the equipment generally used on the Eastern Lines, it has been often suggested that during the grain season and the movement from the prairies, a very considerable proportion of the railway equipment is moved west to handle the western crops and returned to us with considerable wear and tear.

Sir HENRY THORNTON: Who do you mean by "us"?

Mr. CANTLEY: I represent all the east for the purpose of this discussion, and it is said that we are charged with the renewals or betterments or reconstruction of this equipment. Is that correct?

Mr. COOPER: No, sir.

Mr. HANSON: How do you differentiate?

Mr. COOPER: All repairs to equipment are charged to an equipment pool, and the total expense is proportioned between the Eastern Lines and the Canadian National system, on the basis of mileage made by each class of equipment and the total combined mileages.

Mr. HANSON: You adopt an arbitrary method of allocating the cost of maintaining the equipment?

Mr. COOPER: It is apportioned on the basis of the use made by the different parts of the system; it does not matter where it is repaired; that has no effect whatever on the proportion of the expense.

Mr. CANTLEY: If the equipment of the Eastern Lines is taken west and brought back in an inferior condition, who bears the cost of that deterioration?

Sir HENRY THORNTON: The expense is based on the mileage used by different parts of the system.

Mr. McLEAN (Melfort): Would you keep the equipment separate, and bring the same cars back?

Sir HENRY THORNTON: No.

Mr. McLEAN (Melfort): So that cars which went from the Eastern Lines to haul grain might never return?

Sir HENRY THORNTON: Precisely. It is a pool, and the charge against the Eastern Lines is determined by the mileage made in the Eastern Lines in carrying freight from which revenues accrue to that part of the system. Does that answer your question?

Mr. CANTLEY: Partially. There is an item of over \$5,500,000 for maintenance of equipment, and the feeling is pretty general throughout the maritime provinces that a lot of our equipment is taken away and returned in bad condition, or if not returned is replaced with inferior equipment.

Sir HENRY THORNTON: That feeling is without foundation. I am glad to have the opportunity to make that perfectly clear that we have tried, as far as it is humanly possible, to be perfectly just and fair in the distribution of expenses among all the different regions.

Mr. CANTLEY: I am not suggesting that you are not trying to be fair.

Hon. Mr. DUNNING: The rate of increase on the Eastern Lines as compared with the rate of increase on the system generally indicates a greater increase in the cost. There is an increase of \$107,000 on \$5,600,000 on the Eastern Lines as against an increase of \$3,350,000 on \$47,000,000 on the system generally.

Mr. GEARY: I suppose Colonel Cantley's point is that you put all the decrepit cars and equipment on the Eastern Lines and keep the good ones in the west.

Sir HENRY THORNTON: That also is without foundation.

Mr. CANTLEY: There must be some foundation for it.

Sir HENRY THORNTON: I would not say that.

Mr. CANTLEY: We do get a larger proportion of inferior class of equipment—

Sir HENRY THORNTON: Equipment only becomes inferior or decrepit when it is improper equipment for handling the traffic involved.

Mr. CANTLEY: Sometimes there are exceptions to that. We have had complaints on that score of cars with leaky roofs which you would not consider putting on the western traffic.

Sir HENRY THORNTON: No, but they would be perfectly good for the movement of something else.

Mr. CANTLEY: But occasionally these cars are placed at points where it is not a question of moving material which cannot be injured by wetting, and the result is that we suffer.



Sir HENRY THORNTON: Mr. Appleton, have you had many complaints with regard to the movement of defective equipment in the Atlantic region?

Mr. APPLETON: No sir; just about the same as the other parts of the system. Where we get complaints as to leaky roofs, the cars generally originated in the central region. They are loaded with flour and commodities of that kind and come down to the maritime provinces.

Sir HENRY THORNTON: In the moving of 100,000 cars you are likely to get a defective car here and there?

Mr. CANTLEY: Are we getting more than our share?

Sir HENRY THORNTON: No, I think you are getting less.

Mr. APPLETON: We handled 14,000,000 bushels of wheat last year and we got a lot of good cars on that account. Speaking about the transfer of power, we have about 400 engines assigned to the Atlantic region, and last year we transferred 10 engines to the western region during the grain movement. Later on, when we were pressed for power in the Eastern region, we got six engines from the central region.

Mr. HANSON: What about the passenger equipment? Do you think it is on a par in the Eastern region with the central?

Mr. APPLETON: Yes, I would say so. I would say from observations made last Fall that our passenger equipment is better.

Mr. HANSON: I agree with you, on the through trains, but what about the branch lines?

Mr. APPLETON: We have some old cars. It is within the last year that we have been putting on better cars.

Mr. CANTLEY: We have equipment running to Sydney that you cannot sleep in.

Mr. HANSON: I thought they promised to fix that up.

Mr. APPLETON: In the Sydney service we have a modern steel train and have had for about a year. It is as good as on any part of the system.

Mr. CANTLEY: That is correct, but it does not cover all the traffic moving there.

Sir HENRY THORNTON: I have no doubt, gentlemen, that you can find parts of this system extending from the Atlantic to the Pacific, where the equipment is not as you would like to see it, nor as I would like to see it, but at the same time these things cannot all be remedied at once. We are making progress in that direction as fast as our purse will permit.

Mr. CANTLEY: I agree with that. But we are not getting a fair proportion of that new equipment.

Sir HENRY THORNTON: We are making very rapid progress in connection with the improvements of the service in the maritime.

Mr. CANTLEY: You are making some improvements, but far from what we are entitled to.

Mr. HANSON: No question but what on the main line, the service is good, and has been greatly improved.

Sir HENRY THORNTON: Just as fast as we can, we will build it up everywhere, but it will take time to do it.

Hon. Mr. STEVENS: What proportion of different classes of equipment, passenger cars and freight cars, are owned by the system, and what proportion are rented, over, say, the last four years.

Sir HENRY THORNTON: By "rented" do you mean foreign cars which we are using on a per diem arrangement on our lines?

Hon. Mr. STEVENS: That, as well as leased.

Sir HENRY THORNTON: Mr. Hungerford, have we any leased equipment? I do not think we have.

Mr. HUNGERFORD: Very seldom do we lease equipment. Once in a while for a special movement over a holiday we rent a few cars for a day or so.

Hon. Mr. STEVENS: The question was up two years ago, and you intimated then that you thought perhaps it was more economical to lease than to put new capital into new equipment.

Sir HENRY THORNTON: I think I remember that. We had nothing last year, but we did a couple of years ago. We will work that statement up for you.

Mr. McLEAN (Melfort): Do you own your sleeping cars in the United States?

Sir HENRY THORNTON: No. We operate all our runs into the United States with Pullman equipment. We cover the runs in Canada with our own equipment.

Mr. HANSON: Is that a matter of policy or long term contract with the Pullman Company?

Sir HENRY THORNTON: It is a little of both. Our pullman passenger business, so-called, into the States is operated under an arrangement with the Pullman Company, and works out very satisfactorily. If we withdrew these cars, we would be put to a very large capital expense for additional equipment, and I do not think that would be justified.

Mr. FAIRWEATHER (Reading): "Traffic; for 1927, \$764,675.63; for 1928, \$809,049.96, an increase of \$44,365.33; transportation, \$14,661,570.10 for 1927; for 1928, \$15,340,874.73, an increase of \$679,304.63."

Hon. Mr. DUNNING: Mr. Adshead has sent up a note. I do not suppose there will be any objection to his asking a question?

Some Hon. MEMBERS: No.

Mr. ADSHEAD: Is there any indication of making better provision for replacing the passenger terminals more nearly in the centre of the city of Calgary? At the present time it is at the end of First Street West, on the outskirts of the city. I wondered if there was any provision to be made for bringing it closer to the centre of town.

Sir HENRY THORNTON: That is under consideration.

Mr. ADSHEAD: In what direction? What is the proposed consideration?

Mr. HUNGERFORD: We have had under consideration two schemes, one to build a station of our own and the other to join with the Canadian Pacific Railway. The matter is under consideration with the Canadian Pacific at the present time. No conclusion has been definitely arrived at.

Mr. FAIRWEATHER (Reading):

Miscellaneous . . . . .	396,619 47	401,150 37	Inc. 4,530 90
General . . . . .	1,282,222 30	1,323,105 15	Inc. 40,882 85
Transportation for Invest- ment Cr. . . . .	37,686 22	52,899 34	Inc. 15,213 12
Total . . . . .	<u>\$29,989,582 86</u>	<u>\$31,483,351 52</u>	Inc. <u>\$1,493,768 66</u>

Mr. HANSON: What does that particular item, "Transportation for Investment" mean?

Mr. FAIRWEATHER: When we move material in connection with betterment work, the cost of moving it is charged to capital; whereas if it is a question of maintenance we do not charge freight rates on the material.



Mr. GEARY: Is any part of the expense of your general officers pro rated in "Transportation"?

Mr. COOPER: Yes, sir. The Vice-President in charge of operation is also in charge of maintenance of equipment and maintenance of way, so we apportion his salary three ways, to Maintenance of Way, Maintenance of Equipment, and Transportation Expense. Then the portion allocated to Transportation Expense is divided into the different sections on the basis of train mileage.

Mr. HANSON: That is a standard arrangement?

Mr. COOPER: It is our own arrangement.

Sir HENRY THORNTON: It is the general practice on most railways.

Mr. COOPER: It is the correct practice.

Mr. FAIRWEATHER: (Reading):

A statement of this expense, analysing the primary accounts may be found on pages 45 to 48 of the annual report. The division of the expense between employees' compensation and material and miscellaneous is as follows:—

Mr. BELL (St. Antoine): We have a total here of \$1,493,768.66 deficit in your operating expenses—

Sir HENRY THORNTON: No, it is an increase.

Mr. BELL (St. Antoine): Turning to page 41 of your annual report, where the same figures are given, how is it that after taking into account Interest on Advances from the Dominion Government and other items, the net income deficit was \$5,138,026, as compared with the re-stated deficit for 1927 of \$5,129,717? How does the difference come in there? Do we understand that the Eastern Lines are losing that each year?

Mr. COOPER: The difference between this year's result and last year's is that in 1928 we had a contribution from the government to meet the deficit for the full twelve months, while in 1927 it was for only six months.

Mr. HANSON: That brings up a point which has been discussed in the House many times. Why should the government pay annually this so-called deficit on the Eastern Lines? Why is that made a matter of policy? Why should not the whole system pay the deficit of any particular portion of the lines? It makes us look like beggars down there and hurts our national pride.

Sir HENRY THORNTON: No, I do not think it makes you look like beggars, because the so-called Intercolonial railway was built and operated as an obligation to the maritime provinces by the government of Canada, and it would seem that it was only fair for the government to pay the expenses, particularly in view of the fact that to handle it in any other way would involve very difficult accounting questions and very considerable expense. It really does not make much difference which pocket it comes out of, and this method was hit upon as being the most economical, saving the most trouble, and involving the least complication.

Mr. HANSON: If that reason be a sound one, why not take us right up to Saint Rosalie where you found us?

Sir HENRY THORNTON: That came about in this fashion. When we undertook to organize the Canadian National system as an operating unit, we divided it to the best of our ability into three regions. When we came to the Atlantic region there was a great deal of discussion and a great deal of contention and much difference of opinion as to what the limitations of that region should be, between a number of people whose opinions I sought—a large number, including operating people, Ministers of the government, business men, and others whose opinions I thought would be worth while. We finally came

to the conclusion that the simplest and perhaps the best thing would be to fix the limitations of the Atlantic region where they now are. As a matter of fact, in so far as service and as the welfare of the maritime provinces themselves are concerned, I do not think it makes the slightest difference one way or the other.

Mr. CANTLEY: It made quite a difference in the 20 per cent.

Sir HENRY THORNTON: The governing feature was to develop those boundaries which from an operating point of view and the point of view of economy would give the best results. You can argue with great success this matter in half a dozen different ways.

Hon. Mr. DUNNING: It is important not to confuse the two things, the Eastern Lines as defined in the Maritime Rates Act and the Eastern Lines as defined by the railways for operating purposes. If they were extended to Ste. Rosalie and to Montreal in particular, I am afraid it would offset the object sought by the Maritime Rates Act, namely, to accord certain advantages within certain areas. Sir Andrew Rae Duncan set out the area, and I think if that area were extended westward the advantages which the maritimes expected to reap would not be reaped because of the competitive factors from the centres further west. Personally I would have no objection to giving consideration to extending the area of the Eastern Lines, but as I understand it the genesis of the Duncan report was to secure certain advantages within a limited area and to have the 20 per cent reduction applied to points further west would lessen the advantage to the maritime provinces.

Mr. HANSON: The representations made to the Duncan Commission were that the limits of the eastern region should be at Riviere du Loup. If that were extended to Montreal you would find that the annual deficit on the Eastern Lines would be smaller than it is to-day.

Hon. Mr. DUNNING: I will be glad to take cognizance, speaking from a legislative point of view, of any representations made to increase the limits to a point further west. They were made originally by the maritime representatives.

Mr. HANSON: There is almost a universal opinion in the maritime provinces that we were cut off unjustly at Riviere du Loup, when we should have gone to Montreal.

Hon. Mr. DUNNING: That is another question.

Mr. HANSON: I know it is, and the Maritime Rates Act should have ended at Montreal or Ste. Rosalie.

Sir HENRY THORNTON: If that had been done it would have been very difficult to have operated that system from Moncton, and it probably would have been found better to move the general offices of the Atlantic region to Quebec and also at that time there was a good deal of protest and objection on the part of certain people living in Quebec to the very change you have asked for. As a matter of fact, it does not make the slightest difference to the maritime provinces what the limitation of the eastern region is. It was fixed by the Duncan Report, with which we had nothing to do, and there seems to be a kind of supposition—where it originated, I do not know—that because the Atlantic region is operated at a deficit, somehow or other we do not give that same parental care, if one may use such an expression, to the maritimes. That is perfectly ridiculous, because all of the officers of the company are just as anxious to improve conditions in the maritimes, to improve our service, to improve our tracks, and to give the public of the maritimes the service they want, as we are in the province of Ontario or of British Columbia, or of any other province. To single out one part of Canada and say that that part of Canada is not receiving the same scrupulous and anxious care and attention as



any other part, is all wrong, and I would like to take advantage of this opportunity to correct that impression.

Mr. HANSON: You yourself at one time was very much impressed with the conditions to which you now refer and went so far as to say that you were to open a personal office in the city of Moncton and be there once every ten days.

Sir HENRY THORNTON: I do not think I said that. Canada is a big place and I am away about 75 per cent of my time, and I cannot circulate any faster than I do. I try to get to the maritimes often, and I want you to feel that we are doing everything we can to assist the business people of the maritimes to develop.

Mr. CANTLEY: I want to follow up what Mr. Hanson has said. The purpose of the whole matter as dealt with by Sir Andrew Rae Duncan was to enable to products of the maritime provinces to get to the central part of Canada. To carry that out effectively it should have ended at Montreal or Ste. Rosalie—

Hon. Mr. DUNNING: Would you say Quebec as well as Montreal?

Mr. CANTLEY: I want to get into Montreal. Take the steel business; there is no market east of Montreal.

Hon Mr. DUNNING: The reason I asked the question about Quebec was that personally I would be willing to give consideration to the extension of the limits. It is a matter for the government and the House of Commons, but how could you justify extending the 20 per cent reduction to Montreal without also extending it to the city of Quebec, which would represent a larger mileage for the goods to travel. There would be a discrimination there which would be very, very hard to justify.

Sir HENRY THORNTON: You would find that a great deal of stuff that is being distributed from Montreal and Quebec would be sent into the maritimes, and business would be taken away from the business people of the maritimes themselves.

Mr. CANTLEY: That is beside the question.

Sir HENRY THORNTON: It is a very important factor.

Mr. CANTLEY: Montreal is the gateway where our distribution begins.

Sir HENRY THORNTON: It works both ways.

Mr. CANTLEY: I am not disposed to argue that at all. I am confining myself to one thing. The Duncan Report was to enable the maritime provinces to get into the central part of Canada. The gateway is Montreal, not Riviere du Loup, not Diamond Junction, but Montreal, and the result is that 300 miles of that rate is not getting the advantage of the 20 per cent reduction which it was intended and expected we would get. That is as briefly as I can put the situation.

Hon Mr. DUNNING: I would be glad if the maritime members would give serious consideration to the reasons given by Sir Andrew Rae Duncan for recommending Diamond Junction and St. Rosalie as the termini of the eastern lines, because my impression from studying the evidence of the Maritime Boards of Trade is that they were anxious not to have the reduction go to Montreal and Quebec, because they did not want to expose their own area to the competition of the distribution houses of Montreal. I wish the members interested would look into that, because I am willing to hear representations on that at any time.

Mr. HANSON: I am not so interested in the Maritime Freight Rate Act and what the effect of the extension would be if carried on, as I am in the extension of the Atlantic region. I would like to study the other question before I expressed an opinion because I can see from the remarks of the Minister that there would be difficulty. What the people of the maritime provinces object to and have always objected to—and Sir Henry Thornton has not given any real valid reason



to explain it—is why they cut us off at Riviere du Loup. The people down there absolutely expected that the Atlantic region would go as far as the Canadian National Railway system, namely, into Montreal, before the co-ordination of all the roads, and they will never be satisfied until that is done.

Sir HENRY THORNTON: That may be. I do not know whether we will ever reach that blessed condition of satisfaction or not. I have been trying for six years to reach it, but as soon as one thing is settled another comes along.

Mr. GEARY: Was there not some suggestion that the government railway had been built with longer mileage for strategic reasons. That would be governed by Quebec? You do not claim there could be any waste mileage between Montreal and Quebec; the waste mileage is all east of Montreal.

Mr. HANSON: I think that is true of Montreal, but from Quebec to Campbellton is comparatively a barren region as far as traffic is concerned.

Sir HENRY THORNTON: It is not a productive region.

The CHAIRMAN: It is one of the best paying parts of the system.

Mr. GEARY: What does it produce?

The CHAIRMAN: Anything you can think of.

Hon. Mr. DUNNING: In order to help out on the dispute, may I suggest that Parliament has conveyed to the management full authority in connection with matters of this kind. I do not think that Parliament would likely want to say to the management that its operating division should end here or there; certainly I, as Minister, would not think of suggesting to Sir Henry Thornton that he should change any of his operating divisions. When we are discussing the area of the Maritime Rates Act, that is a different matter. I suggest Mr. Hanson's question concerns the sole matter of management.

Mr. McLEAN (Melfort): Will you tell us what effect it would have on the system if you did extend the Atlantic region into Montreal?

Mr. HUNGERFORD: That was a matter which was very carefully considered at the time the present limits were fixed. It so happens that Quebec is in the centre of lines radiating in every direction. We had a general superintendent there on account of the magnitude of the railway interests which made it necessary. His jurisdiction runs away north into Ontario, almost north of Lake Superior. To extend the Atlantic region would mean the addition of another division from Riviere du Loup to Ste. Rosalie, and placing it under the direction of the general manager at Moncton, and apart from the jurisdiction of the general superintendent situated in Quebec, from whose office windows can be seen the trains at Levis, it would be an awkward arrangement. The Quebec people do more business with Montreal than with Moncton and there were serious objections at that time.

Mr. HANSON: Quebec interfered and we do not get it. That is the answer.

Sir HENRY THORNTON: That is not quite right. It does not make any difference what we propose on this railway, there will always be a certain element who will object. Now, rightly or wrongly, our job and our duty is to consider as best we can all of these objections and to the best of our ability come to a decision. We did that in this case. We think we are right; you think we are not. I cannot say anything more. I tried, after consultation with all our officers and those in a position to give me advice, to come to the arrangement which was more economical and would best serve the various communities we reached.

Mr. CANTLEY: The arrangement is not satisfactory so far as the East is concerned. I fail to see from anything that has been said what interest the people of the city of Quebec have in the so-called eastern lines.



Sir HENRY THORNTON: You said you wanted to reach Quebec, and you want the people of Quebec to trade with you. If your statement is correct, why extend the limits of the eastern lines?

Mr. CANTLEY: Because we want to get the advantage of the 20 per cent freight rate reduction to the gateway of the central provinces.

Mr. HANSON: Where our customers begin.

Mr. CANTLEY: We have no trade to the east. You could not run the steel plants of Nova Scotia one week on all the traffic, outside of railway traffic, there is east of Montreal. We must get in there, or shut up shop.

Sir HENRY THORNTON: I would like to make this statement with respect to the general maritime situation. I believe I am perfectly safe in saying that the Canadian National Railway disburses annually in the maritime provinces, for labour, for coal, for steel, for purchases of different sorts, at least \$12,000,000 per annum. We are a very good customer, and I think that is something that should be fostered, rather than being deprecated.

Mr. HANSON: You get full value for your \$12,000,000.

Sir HENRY THORNTON: Yes, otherwise we would not pay it. But also those who sell get value received for what they sell. We are quite useful institutions to each other.

Mr. CANTLEY: We have never disputed that. I do not see what bearing that has on the question I am discussing. I give our friend the Minister credit for the astuteness which he shows which excluded the 20 per cent reduction in freight.

Hon. Mr. STEVENS: What additional sum of money would be required to pay the additional deficit if the Maritime Freight Rate Act was extended 300 miles from its present terminus to Montreal?

Sir HENRY THORNTON: That would take some time to prepare.

Hon. Mr. DUNNING: In answer to you, Colonel Cantley: you are giving me credit for more astuteness than I possess. I will say to the maritime members that I would appreciate your studying the question and meeting me with respect to a proposition to extend the limits of the area now benefiting by the 20 per cent. In framing the legislation I felt that Sir Andrew Rae Duncan had a good sound reason for setting Diamond Junction and Levis as the limits, and I did not go further than that. If there is any astuteness displayed it was by the maritime people themselves before the Duncan Commission. I have no doubt they had good reasons, and I wish you would examine those reasons and look into them. I have an open mind on this subject. The maritime people themselves before the Duncan Commission were responsible of fixing these terminals. My impression is that the advocacy of that limit came from the maritime people. I am subject to correction in that.

Sir HENRY THORNTON: It is just possible that the Auditor of Freight Receipts might be able to give the figures Mr. Stevens wants. Let us see what we can produce, and if we find it will run into a protracted period I will let you know. It may be, in the light of the facts expressed, we might make a close estimate.

Mr. GEARY: You run this Atlantic region from Moncton?

Sir HENRY THORNTON: Yes, the administrative offices for the region.

Mr. GEARY: Where is your competitor's office?

Sir HENRY THORNTON: That would be the C.P.R., of course. I suppose Montreal would have that.

Mr. HUNGERFORD: They have a general superintendent at St. John.

The CHAIRMAN: The supervision of the eastern division only goes to Rivière du Loup.

Mr. GEARY: Were your eastern lines segregated by the Act of 1927 as to accounts?

Sir HENRY THORNTON: No. The Intercolonial was, but the present so-called eastern lines was a new division.

Hon. Mr. DUNNING: The Intercolonial was dealt with in the same way that it always has been. Any deficit was in fact paid by a vote of Parliament, the same as it is to-day with respect to the Eastern Lines as a whole, but when the Maritime Rates Act was adopted, all of the former Canadian Northern lines down there were brought into the Eastern Lines, and were made subject to what had formerly been the situation with regard to the Intercolonial and also the Transcontinental, so the principle of paying the deficit on the Eastern Lines is not a new principle.

Mr. HANSON: You have extended the principle?

Hon. Mr. DUNNING: Yes, instead of applying only to those which were formerly a part of the Canadian Government Railway, we adopted a new principle with regard to paying the deficit. We did not adopt a new principle, but enlarged the application of it.

Mr. GEARY: The Intercolonial deficit up to 1927 was still kept outside of your general account and settled by Parliament?

Hon. Mr. DUNNING: Yes.

Mr. BELL (St. Antoine): There is a deficit each year on the operating results of the Eastern Lines of about \$3,500,000?

Sir HENRY THORNTON: I take it that is correct, yes.

Mr. BELL (St. Antoine): I think Mr. Appleton said that you are moving a lot more grain over the Eastern Lines now. Is there any improvement, or does the future look for any improvement in the Eastern Lines situation?

Sir HENRY THORNTON: I should say there ought to be an improvement. There has been a general improvement in economic conditions in the maritimes which has been noted in recent years. In the last year or so there has been a marked increase in traffic in the maritimes. Mr. Appleton is more familiar with that situation than any of the rest of us, and I think he can answer that question more intelligently than anybody else.

Mr. APPLETON: As far as the increase in traffic is concerned; we had a substantial increase this year. In the month of January we had an increase of 58 per cent. We diverted a great deal of our traffic over the Transcontinental on account of it being a better line, and the increase there was about 100 per cent. We had an increase in the grain traffic through the port of Halifax of about 700 per cent, and some slight increase through the port of St. John.

Hon. Mr. CHAPLIN: The more business you do, the more money the government of Canada seems to be paying.

Mr. BELL (St. Antoine): We have a deficit this year over last year of about \$300,000.

Sir HENRY THORNTON: This year it improves our position by \$300,000?

Mr. ABBOTT: That is right.

Sir HENRY THORNTON: For the first three months of this year the gross revenue on the eastern lines is increased by \$300,000. It is increased from \$6,712,552 to \$7,805,000. So that I would say that there was certainly improvement in business conditions in the Maritimes, if gross revenue is any indication.

Mr. BELL: Mr. Cooper has not quite made the answer to my question plain, after taking into account interest on advances from the Dominion Gov-



ernment and other items, the net income deficit was \$5,138,000, as compared with the previous deficit of \$5,129,717. How is that amount made up, and why is this? I would like to get at your system of keeping these accounts on the eastern lines this year. Does that mean that there is an annual deficit of \$5,138,000?

Mr. COOPER: Yes.

Mr. BELL: Operating deficit?

Mr. COOPER: No, there is a certain amount of interest. That is the net income deficit, after meeting all charges.

Hon. Mr. DUNNING: The aggregate deficit.

Mr. BELL: That is what I said a few minutes ago, that although your business has increased and you show on your operating an improvement so far as the Dominion of Canada is concerned, the amount we are paying out as a loss from the treasury is larger.

Sir HENRY THORNTON: You are paying out, of course, the twenty per cent each year.

Mr. McLEAN (Melfort): That is the way it is, the more business you do, with the twenty per cent basis, the more money you pay out.

Mr. BELL: Then according to Mr. Cantley we do not want to increase the business.

Sir HENRY THORNTON: Last year the deficit was about \$3,790,000. The year before that it was \$4,090,000 odd. We have improved the operating deficit by nearly \$300,000. I am looking at page 43.

Mr. GEARY: I was looking at the statement on page 41.

Sir HENRY THORNTON: If you will turn to page 43 you will find all the details of that set-out, as asked for by Mr. Chaplin. On page 43 you will find that last year the operating deficit was practically \$3,800,000 as compared with \$4,100,000 the year before. Then further down you find that the gross income deficit was \$3,482,000, as compared with \$3,746,000. Then if you go a little further down you find that the government contribution on account of the Maritime freights was \$5,138,000, as compared with \$2,332,000 the year before, but that was only a partial year.

Hon Mr. CHAPLIN: Six months.

Sir HENRY THORNTON: Of course if you reduce freight rates, necessarily you do not make the same amount of money on the additional business that you would on the higher freight rates; and Mr. Chaplin is quite right on that.

Mr. CANTLEY: You may increase the freight movement very largely?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Before we leave this, there is something I want to refer to. We are told here that there was a deficit on the eastern lines of \$5,000,000 and \$3,000,000 and so on, and the idea in the country is that the Intercolonial never had anything but a deficit, and that is not so. Over a period of twenty or twenty-five years we had not deficits but profits, running as high as \$1,000,000 even in the last year when Mr. Cochrane was Minister of Railways. Now I cannot understand, in view of that fact and of the large increase in traffic and the betterment of the road and the betterment of the rolling stock and of the engine equipment, how we are running into such figures as these. It is utterly beyond me. A larger density of traffic with better equipment and better road-bed.

Hon. Mr. DUNNING: I might point out that when you are discussing the operating deficits, in the old days no interest was charged on it on the Intercolonial and you, of course, now add an item here which never was present in

connection with the Government Railways as such. That is really the point which causes the difficulty.

Mr. HANSON: Is that the item which makes up the difference in capital costs?

Sir HENRY THORNTON: Colonel Cantley makes the statement that some years ago the Intercolonial Railway was profitable.

Mr. CANTLEY: That it had no deficit in operation.

Sir HENRY THORNTON: I cannot give you the reason for that offhand, but I can have an analysis made, and I will be glad to present a statement at some latter meeting which will perhaps clear up the point.

Hon. Mr. STEVENS: Does this item of operating include the contribution to the Maritime freight rates of \$5,138,000.

Sir HENRY THORNTON: No, it does not. If you will let Mr. Cooper answer the question, he will clear it up.

Mr. COOPER: If you turn over to page 44 it there shows that the Government contribution to meet the 20 per cent reduction in freight rates is credited to revenue.

Hon. Mr. STEVENS: That is the \$2,151,000.

Mr. COOPER: Yes, sir.

Hon. Mr. STEVENS: Where is the \$5,000,000?

Mr. COOPER: The \$5,000,000 is in addition to that.

Mr. HANSON: In other words, the eastern lines cost the treasury over \$5,000,000.

Mr. COOPER: Yes, but part of the \$5,000,000 is not a cash payment; something like \$900,000 is interest and other non-cash items are credits in favour of the government but we do not draw it down from the government.

Hon. Mr. CHAPLIN: That is shown on page 43.

Hon. Mr. STEVENS: Can you say how much is necessary to make up the operating expenses?

Mr. COOPER: The cash payment by the government in 1928, under votes 411 and 412, was \$2,151,527.75 plus \$4,200,356.51; that is about \$6,350,000.

Mr. HANSON: That came out of the treasury directly on account of the eastern lines?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And that allows no interest on investment for government advances?

Mr. COOPER: No.

Hon. Mr. CHAPLIN: For what period was that?

Mr. COOPER: That was the twelve months of 1928.

Sir HENRY THORNTON: If you take it, you will find the operating expenses and operating revenue, and you will find the last item below, item 551, the government contribution, which balances. You will find the gross earnings and expenses and everything in the first column on page 43. The whole thing is set forth there.

Mr. CANTLEY: Referring to the statement, item 546, interest on funded debt, what does that refer to?

Mr. COOPER: That is the interest on the outstanding bonds of the Halifax and Southwestern Railway.

Mr. BELL: Would it be possible, since you have taken over the National Railways, to get a statement as to the eastern lines showing how much they have cost? I asked that question because I think, in fairness to you in the



operation of the eastern lines, if there are to be reductions in rates then naturally there are going to be further deficits, and we might as well face the situation which is taking place regarding the eastern lines.

Sir HENRY THORNTON: The trouble is that prior to last year we kept the accounts separate for the Atlantic region, but not the account separate for the eastern lines.

Hon. Mr. DUNNING: But it must be borne in mind that so far as railway freight rates are a factor the railway revenues do not suffer one cent, because the contribution is taken in as operating revenue, quite properly, so that there is no question of reduced freight rates having anything to do with that deficit.

Sir HENRY THORNTON: The Minister is quite right in that.

Mr. CANTLEY: Item 547, interest on Dominion Government advances,—what does that mean?

Mr. COOPER: That is interest on government advances to the Halifax and Southwestern, etc., on which the government charge us interest, and we accrue it in the eastern lines accounts as a credit to the government.

Mr. HANSON: You have the interest on the funded debt, that is the \$155,000. That would be on outstanding bonds on the Halifax and Southwestern Railway?

Mr. COOPER: Yes.

Mr. HANSON: What advances did the government make to the Halifax and Southwestern,—was that for rehabilitation?

Mr. COOPER: They have made advances for capital and deficits over a long period of years, since the Canadian Northern received advances from the Dominion.

Hon. Mr. DUNNING: That is the old debt which we have on the whole system.

Mr. HANSON: That is part and parcel of that?

Hon. Mr. DUNNING: Yes.

Mr. GEARY: Have we a comparison of 1926 and 1927 in this also?

Sir HENRY THORNTON: I do not think so.

Mr. CANTLEY: How does it come that the interest is greater in 1928 than in 1927?

Mr. COOPER: Because the government have made further advances. They are making advances for capital expenditures but not for operating deficits. They are making cash payments for deficits.

Mr. CANTLEY: My point is that the amount charged on that account last year is greater than the year before by about \$12,000.

Mr. COOPER: That is interest on additional advances.

Mr. CANTLEY: Why do you deal with advances on the portion of the system differently from advances on the Intercolonial system?

Mr. COOPER: Because the advances by the government to the Intercolonial Railway have always been free of interest, and have been charged to the Consolidated Debt Account; but the advances to the other lines have always been charged with interest.

Mr. CANTLEY: But why is this item \$12,000 more this year than the year before?

Mr. COOPER: Because of additional advances in the meantime.

The CHAIRMAN: Go on with "Labour."

Mr. FAIRWEATHER (Reading):—

	1927	1928	Increase
Labour			
Maintenance of Way and Structures.. . . .	\$ 3,983,715	\$ 4,215,493	\$ 231,778
Maintenance of Equipment.. . . .	2,918,162	2,952,250	34,088
Traffic.. . . .	364,596	392,141	27,545
Transportation.. . . .	9,557,979	10,127,220	569,241
Miscellaneous.. . . .	217,571	220,754	3,183
General.. . . .	634,330	654,539	20,209
Total.. . . .	\$17,676,353	\$18,562,397	\$ 886,044
Material and Miscellaneous			
Maintenance of Way and Structures.. . . .	\$ 3,381,529	\$ 3,781,936	\$ 400,407
Maintenance of Equipment.. . . .	2,638,776	2,712,400	73,624
Traffic.. . . .	400,080	416,900	16,820
Transportation.. . . .	5,103,591	5,213,665	110,064
Miscellaneous.. . . .	179,048	180,397	1,349
General.. . . .	647,892	668,566	20,674
Transportation for Investment Cr.. . . .	37,686	52,899	15,213
Total.. . . .	\$12,313,230	\$12,920,955	\$ 607,725

The increase in employees' compensation is caused by increased rates of pay, \$218,412; and increased hours worked, \$667,632.

Mr. HANSON: In what particular branches were the increased rates of pay?

Mr. COOPER: That is explained down below.

Mr. HANSON: Yes, alright.

Mr. FAIRWEATHER: (reading):—

	Rates of Pay		Hours		Net
	Decrease	Increase	Decrease	Increase	Increase
Mtce. of W. & S.. . . .	\$ 69,851	.....	.....	\$301,629	\$231,778
Mtce. of Equipment.. . . .	.....	\$ 49,064	\$ 14,976	.....	34,088
Traffic.. . . .	.....	6,858	.....	20,687	27,545
Transportation.. . . .	.....	217,033	.....	352,208	569,241
Miscellaneous.. . . .	.....	3,861	678	.....	3,183
General.. . . .	.....	11,447	.....	8,762	20,209
Total.. . . .		\$218,412		\$667,632	\$886,044

The increase in material and miscellaneous is made up:—

	Price Changes		Increase in	Net
	Decrease	Increase	Quantity	Increase
Mtce. of Way & Structures.. . . .	.....	\$ 9,905	\$390,502	\$400,407
Mtce. of Equipment.. . . .	\$ 61,582	.....	135,208	73,624
Traffic.. . . .	.....	.....	16,820	16,820
Transportation.. . . .	96,795	.....	206,859	110,064
Miscellaneous.. . . .	4,190	.....	5,539	1,349
General.. . . .	15,529	.....	36,203	20,674
Transp. for Invest. Cr.. . . .	.....	.....	15,213	15,213
Total.. . . .	\$168,191		\$775,916	\$607,725

Mr. GEARY: This a good place to adjourn? If I might say so, it would be a good thing if we could get out of here by a quarter to one.

Hon. Mr. DUNNING: Should we not determine, Mr. Chairman, what we should take up to-morrow? My suggestion is that we should take up the accounts in detail.

Sir HENRY THORNTON: I might say that you have now covered pretty thoroughly the items which are chargeable to expenses. Now you can take the annual report and can again go over the same ground which you have just gone over more in detail. But subject to your opinion, it occurs to me that you have now pretty well gone over all the items relating to the operating expenses. You might, if you wish, consider that closed. Of course you can go over all that again in the annual report; but I do not think you will produce any new facts.

Mr. GEARY: These are just primary accounts.



Mr. JENKINS: There is one matter in reference to the Atlantic region. What are you doing now, for instance, in connection with the grain you are carrying down to Halifax, say? Are you giving us credit on that?

Sir HENRY THORNTON: Oh, yes.

Mr. JENKINS: Are you making any money on that?

Sir HENRY THORNTON: No.

Mr. JENKINS: Are you losing money?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: May I say, Mr. Jenkins, that if you ask any railway official if they are making money on any particular class of traffic, they will demonstrate to you that they are not.

Sir HENRY THORNTON: If you ask me if we make any money on the grain we move to Halifax I would say no, we do not. But all the gross earnings which accrue on the grain go into the gross figures and are shown there.

The CHAIRMAN: I understand that to-morrow you do not intend to go into the detailed expenses, which you have already gone through?

Mr. GEARY: I think we should take up the balance sheet.

Sir HENRY THORNTON: I think that is wise.

Mr. CANTLEY: Are the auditors here?

Sir HENRY THORNTON: Mr. Cooper is here. Touche & Company audit the accounts, and you will find their certificate here. It is a continuous audit.

Hon. Mr. CHAPLIN: I think Touche & Company should have someone here to represent them. I would like to find out what they audit.

Mr. COOPER: The Canadian National accounts are audited from the Toronto office by Mr. Mathews.

Mr. GEARY: It is a continuous audit that Touche carry on?

Mr. COOPER: Yes, they have men in the office all the time. But there is no information they can give that we cannot give you.

Hon. Mr. CHAPLIN: I want the auditor to state what they do.

Sir HENRY THORNTON: Oh, certainly.

The CHAIRMAN: Will you arrange to have him here, Sir Henry?

Sir HENRY THORNTON: Oh, yes.

The Committee adjourned until Thursday, April 25, 1929, at 11 o'clock.























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*Canada Railway and Shipping  
Standing Committee 1929*

SESSION 1929

HOUSE OF COMMONS

*CH 8615  
-R17*

SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

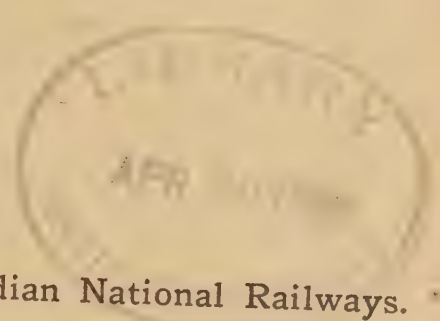
No. 4—THURSDAY, 25th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.



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1929





## MINUTES OF PROCEEDINGS

ROOM 268, HOUSE OF COMMONS,  
THURSDAY, 25th April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Cantley, Duff, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (*Melfort*), Milne, Power, Stevens.

*In attendance:* Sir Henry Thornton, President, Canadian National Railways, with members of his staff.

Mr. O. A. Matthews of Messrs. George A. Touche & Co., Chartered Accountants, auditors of the accounts of the Canadian National Railways.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

### ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

Typewritten replies were submitted by Sir Henry Thornton to several questions asked by members at the last meeting of the Committee.

Mr. Matthews of Messrs. George A. Touche & Co., Chartered Accountants, auditors of this Report, was called and examined as to the auditing methods employed. Mr. Matthews retired.

The Committee proceeded to the consideration of the Consolidated Balance Sheet, as contained on pages 14 and 15. The items appearing as Assets, being Nos. 701 to 727, both inclusive, were severally called and considered.

At 1 p.m. the Committee adjourned, until to-morrow, 26th instant, at 11 a.m.

JOHN T. DUN,  
*Clerk of the Committee.*





# MINUTES OF EVIDENCE

COMMITTEE ROOM 268,  
HOUSE OF COMMONS,  
THURSDAY, April 25, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Sir Henry, I think you have answers to certain questions which were asked yesterday.

Sir HENRY THORNTON: Yes. Mr. McLean (Melfort) asked if the loss on dining and buffet service is decreasing annually. In 1928 the loss was \$632,317.58 and in 1927 the loss was \$583,394.41. The increased loss is due to additional service. I should say that on the basis of these figures there probably is not very much change.

Hon. Mr. Stevens asked what additional sum of money would be required to pay the deficit on the Eastern Lines if the 20 per cent reduction under the Maritime Freight Rates Act were extended to the lines from Levis and Diamond Junction to Montreal. To get even an approximation of this sum would require a tremendous amount of work.

Hon. Mr. STEVENS: Do not bother about it further.

Sir HENRY THORNTON: Mr. Bell (St. Antoine) asked how much have the Eastern Lines cost Canada since the present management of the Canadian National Railways assumed office. This statement includes the revenues and expenses and net losses from 1923 to 1928, inclusive, and is as follows:—

Year	Revenues	Expenses	Net Loss
	\$ cts.	\$ cts.	\$ cts.
1923.....	26,297,883 52	30,537,434 99	4,239,551 47
1924.....	24,449,496 92	26,907,259 36	2,457,762 44
1925.....	24,074,879 01	26,117,205 05	2,042,326 04
1926.....	25,104,984 08	28,919,415 35	3,814,431 27
1927.....	26,162,744 12*	29,989,582 86	3,826,838 74
1928.....	27,959,347 30*	31,483,351 52	3,524,004 22
	154,049,334 95	173,954,249 13	19,904,914 18

NOTE.—The figures prior to year 1927 are the Atlantic Region figures, plus an arbitrary adjustment in respect of lines west of Monk and Rivière du Loup.

\*Year 1927 revenues include \$931,809.89 and year 1928 revenues include \$2,151,527.75 contributed by the Government under the Maritime Freight Rates Act.

Mr. Hanson asked, what are the charges to Maintenance of Way and Structures on the Atlantic region for the last six years. The answer is as follows:—

1923.....	\$ 6,505,697 24
1924.....	5,217,435 35
1925.....	5,215,136 48
1926.....	6,833,660 40
*1927.....	6,827,581 02
*1928.....	7,413,617 02

\*Years 1927 and 1928 are Eastern Lines' figures, less a mileage proportion for lines west of Monk and Rivière du Loup.

[Sir Henry W. Thornton.]

Hon. Mr. Stevens asked what proportion of the different classes of equipment, freight and passenger are now rented on the system, and what were the proportions for the last four years. This is rather a difficult statement to read. Shall I just put it on the record?

Hon. Mr. STEVENS: Yes, that will be all right.

## FREIGHT EQUIPMENT

Year	Freight cars owned	Excess number of foreign cars on system lines over system cars on foreign lines, under usual interchange arrangements
1925.....	126,399	4,708
1926.....	123,573	10,386
1927.....	123,996	9,873
1928.....	119,984	16,442

## PASSENGER EQUIPMENT

Year	Passenger cars owned	Rented (Seasonal only)
1925.....	3,564	27 sleepers 4 parlour cars 39 coaches 65 express cars
1926.....	3,588	27 sleepers 55 express cars
1927.....	3,689	15 coaches 50 express cars
1928.....	3,721	2 parlour cars 60 express cars

NOTE.—In addition, in 1928, there were a few passenger cars temporarily loaned to us by the Delaware & Hudson Company and the Great Northern Railway.

Hon. Mr. DUNNING: There is one qualification to that which arises, if I am correct in assuming that the unit has increased in capacity during that year.

Sir HENRY THORNTON: Yes, you always have to take into consideration the fact that the capacity of cars is constantly increasing; that is to say, 10,000 cars to-day will carry more freight than 10,000 cars of twenty years ago.

Mr. GEARY: What lines originally comprised what are now the Eastern Lines?

Mr. FAIRWEATHER: The Eastern Lines comprised the Intercolonial Railway, the National Transcontinental Railway from Diamond Junction to Moncton, the Halifax and Southwestern Railway, the Prince Edward Island Railway and the Inverness Railway.

Hon. Mr. DUNNING: Are not some of the old Canadian Northern branch lines included?

Mr. FAIRWEATHER: The Halifax and Southwestern.

Mr. HANSON: And the St. John and Quebec Railway.

Mr. FAIRWEATHER: That is part of the Intercolonial.

[Sir Henry W. Thornton.]



Mr. GEARY: The Halifax and Southwestern was government owned?

Mr. FAIRWEATHER: No; it was part of the Canadian Northern.

Mr. GEARY: Taken over with the Canadian government lines?

Mr. FAIRWEATHER: Yes.

Mr. GEARY: And government owned in that sense?

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: Hon. Mr. Chaplin asked yesterday that we have one of the two auditors here this morning. Mr. Matthews is here, but Mr. Chaplin is not.

Sir HENRY THORNTON: Might it not be a good idea to send him word to see if he could manage to be here?

Hon. Mr. STEVENS: While Mr. Hanson is out, may I ask, Sir Henry, this question in regard to the question which I asked yesterday. The answer before me indicates this, first in regard to freight cars, that in the year 1925 freight cars owned by the system were 126,399; in the year 1928, freight cars owned by the system were 119,984; or a shrinkage of approximately 6,000 of freight cars owned by the system.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: In the same period, that is in 1925, the excess of foreign cars on the system over the system's cars on foreign roads was 4,700; in 1928, it was 18,442.

Sir HENRY THORNTON: 16,000 odd. It is not very clearly typed.

Hon. Mr. STEVENS: I will make the correction. 16,442, or virtually an increase of approximately 12,000.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Sir Henry, would not that indicate that on the question of equipment the road was rather starving itself?

Sir HENRY THORNTON: It might indicate that, if there were no knowledge of the underlying facts.

Hon. Mr. STEVENS: That is what we would like to have you tell us.

Sir HENRY THORNTON: What has happened is this. It is true that the actual number of units has decreased from 126,000 roughly to 120,000, and that difference is due to retirements. Now those cars that have been retired have been replaced by cars of much greater carrying capacity, much greater service ability; that is to say, you judge the freight car equivalent of a railroad not exclusively by the number of cars that it may have in its service but also by the character of those cars and their usefulness. On that basis, the actual improvement in the condition of the equipment has been about twenty per cent over that of 1925. In other words, we would say that the usefulness of our equipment for carrying purposes is more efficient in 1928 than it was in 1925.

Hon. Mr. STEVENS: Just a moment, Sir Henry. I must say I scarcely follow you there. You do not mean to suggest that the 119,000 cars, even with the increased capacity of the new cars which have been added in that four year period, would exceed the tonnage capacity of the 126,000?

Sir HENRY THORNTON: Yes I do. That is exactly what I mean. What I mean to say is—

Hon. Mr. STEVENS: Just a further question right there. How many cars have been added in that period?

Sir HENRY THORNTON: While I am waiting for that information, may I pass on to the other part of your question, Mr. Stevens, that is to say, the

[Sir Henry W. Thornton.]

increase in the use of foreign cars from 4,000 to 16,000. That is largely and almost entirely to be explained by the increase in business that we have experienced. Now in our business, when business increases we can do one of two things, we can either buy enough cars to take care of that business without the employment of foreign cars, or we can avail ourselves of the use of foreign cars, at the usual per diem rate; or there is a third thing that we can do, which is a little of each. Our large freight car requirements for carrying purposes is seasonal. There is a very heavy demand which comes on us when the crop comes in. That demand means that we commence in June, and sometimes earlier, to distribute empty grain cars at the various stations through the west, in order to be ready for the movement of the crop; and those cars will stand idle for a good many days; perhaps the average would be something like thirty days. All of that means, together with the movement of the crop itself, very heavy seasonal demands for equipment. It would not be economical, certainly under present conditions, for the Canadian National Railway to equip itself by the purchase of all the cars which would be needed for such a seasonal movement, because they would not be of any use the rest of the year. Consequently we think it more economical to avail ourselves of the use of foreign cars for a seasonal movement of that character. That explains partly the use of the number of foreign cars which we have shown. And, secondly, the general increase in the Company's business, particularly the very large increase we have had in the volume of the crop in the past few years would explain the rest of the difference. Is that clear, Mr. Stevens?

Hon. Mr. STEVENS: Oh yes, I cannot say that I am convinced. I cannot say that it is quite clear.

Sir HENRY THORNTON: All that I can tell you is to tell you the truth.

Hon. Mr. STEVENS: I am not questioning that. But I do offer this suggestion, that it looks to me as a rather precarious position that you are in, in depending upon foreign cars. You see you have an increase of foreign cars of about 12,000, which is a very large increase in four years in excess of your cars of foreign systems. Supposing the foreign companies were to start, as they did after the war, when the United States Government turned back the railways, and there was a wholesale demand for the return of cars and a strenuous effort made, and supposing such a move were made suddenly, as such moves always come, would you not find yourself in an awkward position?

Sir HENRY THORNTON: We have not had any trouble and do not anticipate any trouble. I might say that even if I had at my disposal as the head of this railway all the capital necessary to build equipment so as to do away with the use of a single foreign car, I would not do it; nor would I depart from the policy which we are now following, and which I believe to be in the long run the most economical policy on the part of the company.

Of course those are things which necessarily involve some knowledge of transport and transportation problems, and I can tell you that so far as I have any knowledge of the business or the profession, that is my considered opinion. Others may differ with me.

Hon. Mr. STEVENS: I could not put my opinion against yours, and would not presume to do so.

Sir HENRY THORNTON: On the contrary, I would very humbly consider anything which you might suggest.

Hon. Mr. DUNNING: I have the Canadian Pacific statement here, and adding together the classes of cars listed, which would fall within the classes referred to, the Canadian Pacific Railway has just over 99,000 in those classes of cars. That appears to be fairly comparable, having in mind the difference in mileage; freight and cattle cars about 90,700; conductors' vans, 1,395.

[Sir Henry W. Thornton.]



Boarding, tool and auxiliary cars make up the balance of the total which is just over 99,000. Of course they do not give any information in the C.P.R. annual report of the number of cars rented, so that we cannot make the comparison there.

Mr. POWER: Are there certain seasons, Sir Henry, when we have more of our cars in the United States?

Sir HENRY THORNTON: Oh yes, it fluctuates with the seasonal movement of different kinds of traffic. Our arrangements with the American railroads have been extremely agreeable. For instance, last year I anticipated a pretty heavy crop movement and I took the question up with some of the American railways for seasonal assistance, and we got it. And in the same way we send our cars over to them.

Mr. HANSON: It balances up?

Sir HENRY THORNTON: Yes, more or less, it balances up. Just another thing in reference to the question which Mr. Stevens asked. Last year we bought 4,000 new cars and 6,700 cars are on order. In other words, we practically have new, with what has been bought and what is under construction, 10,700 new cars.

Mr. POWER: What is the annual wastage of cars?

Sir HENRY THORNTON: About 3,000 cars a year.

Mr. POWER: So that you are keeping ahead as well as you can?

Sir HENRY THORNTON: Oh yes.

Hon. Mr. DUNNING: Last year some information was asked for about the old cars which the company had, and I remember the information given was that the 40,000 cars would be eliminated in about one year from then. Bearing on that, I understand that the new cars are of not less than 80,000 pounds capacity.

Sir HENRY THORNTON: Yes, not less than that, and some of them more.

Hon. Mr. DUNNING: And some of them 100,000—and that is very important.

Sir HENRY THORNTON: As a matter of fact we have certain problems in connection with our equipment to be worked out. A good deal of our equipment, when the government got possession of these railways, was a wooden type; and like all wooden cars they begin to go more or less about the same time. Now we have been trying for the last six years to sort of massage that problem out of our equipment; but it has got to be done with some recognition of the length of our purse. And that is what any private company would do; they would not rush in and buy a whole lot of new cars and try to solve their problem all in the first year or so. It is somewhat the same problem that we have had in our maintenance, in the condition of our tracks. As the earnings have increased, and as the business has increased, as the net earnings of the railway have permitted, we have correspondingly increased our efforts to get rid of this obsolete equipment, and also to improve the track. Now, that will probably take a period of some years to get rid of entirely, but it ought to be done, as I say, intelligently and with caution and with some regard to the finances of the company.

Mr. HANSON: That seems reasonable.

Hon. Mr. DUNNING: From what Mr. Hungerford tells me apparently 120,000 pound cars are the requirement.

Sir HENRY THORNTON: Yes.

Mr. GEARY: What part of your cars goes first.

Sir HENRY THORNTON: Mr. Hungerford can probably answer that better than I can.

[Sir Henry W. Thornton.]

Mr. HUNGERFORD: I think all parts of the trucks go about uniformly. The wearing-out process is practically uniform.

Mr. McLEAN (Melfort): And the trucks would probably be of no use, anyway, after the body of the car has gone.

Mr. HUNGERFORD: There is no uniformity.

The CHAIRMAN: Gentlemen, we have heard Sir Henry Thornton on the analysis, and it has been suggested that the operating expenses would not be gone into in detail. Is it your desire that we should consider the balance of the report now, or shall we wait until Mr. Chaplin arrives?

Hon. Mr. STEVENS: Mr. Chaplin will not be able to be here. I think we could ask Mr. Matthews a few questions.

OVERTON A. MATTHEWS called.

The CHAIRMAN: Turn to pages 14 and 15, Mr. Matthews.

*By Mr. Geary:*

Q. Before the evidence goes on, Mr. Chairman, I was going to ask Mr. Matthews this; are you responsible for the form in which this certificate appears?—A. Yes.

Q. Is that the usual form of your firm?—A. That is our usual form issued on our American Railways.

Q. I notice it is quite different from that of the C.P.R. The C.P.R. have a firm of auditors, Price, Waterhouse and Company of England. I used to think of them as of Montreal; are they of England?—A. That is their headquarters.

Q. They say that the balance sheet shows the true financial position of the company at that date, as compared with your certificate, which says that it exhibits a true and correct view of the affairs of the system. Is there any significance in the change?—A. No, Colonel Geary, except that perhaps every firm have their own style of certificate. There is little difference in the effect of those two clauses.

Q. Is there any?—A. Will you just read Price, Waterhouse and Company's again, please?

Q. There it is, at the bottom of the page, on the right hand side?—A. I would say that there is no difference.

Q. Then yours means that this balance sheet exhibits, as they term it, the true financial position of the company?—A. Exactly.

Q. It just struck me that there might be a little difference.

Mr. HANSON: They are a little extra cautious.

WITNESS: As I say, every firm of accountants, like lawyers, have their own phraseology, to say the same thing.

Mr. HANSON: I do not think that is quite true.

Mr. GEARY: The only difference is that lawyers have to decide what you mean, when you put in a certificate.

WITNESS: It is the same, practically.

*By Mr. Geary:*

Q. While I am on this, I see that you have accepted these investments, starting at 701?—A. The three accounts, Mr. Geary, 701, 702, and 705.

Q. These you accepted as of the 1st of January, 1923?—A. There is no other way that that could be done. For instance, included in the Canadian

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National property accounts are the accumulated property investments of the Canadian Government Railways, the Grand Trunk, that started seventy-five years ago. Obviously we have to make clear the point at which we start the investment account.

*By Mr. Hanson:*

Q. For your own protection?—A. Yes, to know where it did start.

*By Mr. Geary:*

Q. You take their inventory?—A. There is no other way, Mr. Geary. What to-day would be accepted as a basis of capital expenditure, distribution as between capital and income, was not the basis of twenty-five or fifty years ago. I know even in the twenty years I have been in this business on American railways, there have been changes, and in Canada particularly. When we used to audit the old Canadian Northern fifteen years ago, they were operating under a basis entirely different from what the Inter-State Commerce Commission prescribed, and while they operated on a common sense basis, it was not exactly the way we would base the expenditures to-day, because years bring changes of view, changed conditions of accounting, the same as in operation, so that it would be obviously impossible to bring the expenditure basis from 1850 up to 1923 on anything like a uniform basis. We therefore make our position clear.

Q. Whatever they do in 1923, in their balance sheet— —A. We start from there, but from there on we accept full responsibility for the capital charges.

*By Mr. Hanson:*

Q. Your point is that there has been an evolution in the science of accounting in twenty-five years?—A. Not so much in the twenty-five years. There has been in some of our Canadian properties not so much in the American properties, because the Interstate Commerce Commission classification has been more uniform than the ordinary Canadian property, because we have not had a standard.

*By Mr. Geary:*

Q. Do you adopt the Interstate Commerce Commission's standard entirely?—A. Well, Mr. Geary, there is one principal exception to that. We work under the Interstate Commerce Commission's classification for the Canadian National the same as we do for some other American railways for which we are auditors with the one exception of the policy of depreciation. That is a rather lengthy subject. If you want me to give you our ideas on that, why we fall in with the Canadian National policy on the retirement basis rather than on a theoretical depreciation, I will tell you, but that is the main exception.

Q. I would like the practical working out of it rather than the theory; I know it is very long?—A. It is something like religion and politics—one never gets to the finish of it. There are two schools of thought, in the matter of depreciation for railways particularly; one is a theoretical depreciation. That sets out the average life, and accrues against that a certain percentage of depreciation, on the theory that after twenty-five years a box car will cease to exist. That is all very well in theory, but unfortunately matters of obsolescence and so forth intervene, that very often upset completely the figures that have been set up. The Canadian National have adopted as opposed to that theoretical depreciation—

Q. I suppose they have a mortality table?—A. For reasonable certainty, but obsolescence is impossible, because no one can foretell the changes which

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may take place in the types of equipment particularly. The Canadian National have up to this time worked on the basis of a retirement policy that is actual depreciation, if you care to put it that way. One has to be very careful in the acceptance of any such accounting policy. For instance, if this property were new, their present policy would not be acceptable. If we as auditors had any feeling that the operating department were withholding from the accounts, the reflection of the retirements other than had or should have been made, again that policy would not be acceptable. But the ground upon which we accept the retirement basis is this, that the Canadian National Railways as an operating entity, and taking into account all the operating entities that comprise it, have been in existence a great many years, therefore, there have been from the first year of the System considerable retirements, and continuously so. We have been in touch with this property from one end of the system to the other, as far as we consider it necessary, in order to determine whether the Operating Department were supplying the Auditing Department with figures which were a fair reflection of the retirements, and we have found this, as auditors as well of American properties, that the retirements during a period of years over a big system, where you have retirements on a fairly even basis over a period of years, your income account is in the long run as nearly correct as a great many of the theoretical estimates that are made.

Q. The income account?—A. The income account, because your income account reflects the retirements, or the amount of depreciation provided. I may say that opposed to that the Interstate Commerce Commission have been giving a great deal of attention to this question of depreciation. I think it was in their Order No. 15,100, issued some time ago, that they carried the theory of depreciation to an extreme point. Heretofore they had been applying depreciation only on equipment, but they extended it in this proposal and, as was expected, the American properties took such exception to the impracticability of many of the clauses that it has been held up, and nothing has been done. Prior to that time, the Interstate Commerce Commission had made depreciation on equipment, obligatory on the American lines, but they have left it now to the discretion of the respective properties.

Q. They have left it discretionary?—A. The amount of depreciation. I have in mind one road which used to allow one quarter of one per cent; another road doing well might allow four per cent on their equipment and so on. Our feeling on depreciation is that the Canadian National in the matter of retirement accounting, all those other things being proper, in our opinion the income account is fairly reflective of what the operations have been for that year with equal accuracy as if the information had been provided on a theoretical basis.

*By Mr. Hanson:*

Q. The sum was checked up?—A. We have access to all the operating records. We go right back to the superintendents' offices, to the road-masters' offices, where we think it necessary; the shops, the chief of car equipment, the chief of motor power; all these records are available to us for any purpose.

*By the Chairman:*

Q. At all times?—A. At all times.

*By Mr. Geary:*

Q. You use these to split disbursements into capital and operating?—A. No. This is just on the question of retirements, because the question of retirements is a very important one, in that it relates itself to the depreciation ele-

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ments. You see we would not be prepared to give a certificate on the income account knowing that the depreciation had not been theoretically provided for if we did not feel well satisfied that the retirement gave a fair reflection of the equipment. The question of capitalization is another story entirely.

*By Hon. Mr. Stevens:*

Q. On the question of equipment retirements, Mr. Matthews, the report shows, if I recall rightly, 4,200 and some odd freight cars retired last year; 4,438 system cars were retired in 1928?—A. I have not the figures.

Q. That is the figure. I am going to put a hypothetical question upon these figures. Sir Henry Thornton tells us that those are largely 30,000-pound cars?

Mr. MATTHEWS: 30-ton box cars.

Hon. Mr. STEVENS: Well, they would represent the cost of approximately what, \$700?

Mr. MATTHEWS: Some of them would run as low as \$600.

Mr. COOPER: The average cost is about \$850.

Mr. MATTHEWS: It depends on when they were bought.

Hon. Mr. STEVENS: They are replaced with those 120,000 pound cars, and they will cost what?

Mr. COOPER: About \$2,800.

Hon. Mr. STEVENS: You retire, we will say, the 4,438 at \$850, and that would be the retirement sum—

Mr. MATTHEWS: Less salvage.

Hon. Mr. STEVENS: Which amounts to approximately how much, Mr. Hungerford?

Mr. HUNGERFORD: Perhaps \$100.

Hon. Mr. STEVENS: We will say, therefore, \$750 is the average for the retirement of the 4,438. These are replaced with a similar number at \$2,800 a car. Where do you reflect, and how do you distribute them?

Mr. MATTHEWS: The original sum is \$850, we will say, Mr. Stevens. The first thing is, that is credited to the property account because it has ceased to exist; the \$750 is charged into your operating expenses as retirements, and the \$100 or \$50 is charged into your stores as the value of your scrap; the other one is set up as in equipment—

Hon. Mr. STEVENS: In full?

Mr. MATTHEWS: In full, because it is the present asset. The other asset has ceased to exist as a freight car. It only has a scrap value of \$100 and it is reflected in 716, Material and Supplies.

Hon. Mr. STEVENS: I am not criticizing; I am just asking for information. Do you consider that a fair presentation?

Mr. MATTHEWS: Yes, sir, and there is no other way. It is not only fair but it is the established precedent all over America on railroad accounting.

Hon. Mr. STEVENS: Except theoretical depreciation?

Mr. MATTHEWS: Yes, that is what I have said, Mr. Stevens. Taking it all in all, for instance, if this road were one hundred miles long and you retired the only round house you had in one year you see the theory would not work. But we have the largest railroad in the world here, with 22,000 miles of track, and, as I say, taking the thing all in all for a period of years, you may have your instances here and there where it would appear to penalize, but taking it all in all, year in and year out, the result is as fair as anything that can be used on the basis of elementary depreciation of other companies outside of

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Canada. I am only speaking from income, Mr. Stevens, because I am afraid, from our point of view, this whole question of capital expenditures has been little understood. I do not know whether some of the things that I hear travelling around are indicative of the average opinion, but I heard a man not very long ago, going down to St. John, claim that all the figures that were in the Canadian National were sent down from Ottawa and copied in the books in Montreal and we just signed it. I thanked him for the information and said I was very sorry to hear that. Do not get me started on this question of capital expenditures because we will not be able to get away to-day. But on the question of capital expenditures I am prepared to answer any questions as to the matter of the division between capital account and income, in the matter of its apportionment, or on the question of retirements, or depreciation, or anything that affects that capital account. We stand behind it absolutely without any qualifications since the first of January, 1923, and we stand behind this Income Account without qualifications.

Mr. GEARY: What Mr. Stevens is asking is just what you stated originally, that you have come to the conclusion that the retirement basis is the proper basis upon which to operate this road.

Mr. MATTHEWS: That is a pretty difficult thing to say, because that would seem contradictory. If on the other hand an American railroad is using a depreciation basis we do not say to them, "Well, now, on some of that work we work on a retirement basis"; we weigh it up; we have to take each company as we find it.

Mr. GEARY: But you believe that the retirement system is the one properly applicable to your company?

Mr. MATTHEWS: We think it is a fair one. On the other hand, if the company decided to adopt the theoretical depreciation of the Interstate Commerce Commission, if the rates were reasonable we would not object, because there is no law in accounting. It is a matter of reasoned judgment and experience, and one cannot say that theoretical depreciation is right to the exclusion of the retirement policy; no one can say to the contrary. It is a matter of condition, and a matter of the experience of the particular firm doing the work, I suppose.

Mr. GEARY: You get a turn-over cycle in a railroad of this sort to begin with, and you would have quite a job to reclassify this account?

Mr. MATTHEWS: You mean for depreciation?

Mr. GEARY: Yes.

Mr. MATTHEWS: You certainly would, and there are many arguments against theoretical depreciation, and one is obsolescence.

Mr. GEARY: I have used that as far as I could.

Mr. MATTHEWS: We have all had a little experience on those questions. We feel that the income account fairly reflects in that it includes every question that enters into capital expenditures.

Mr. GEARY: Referring to Mr. Stevens' question just how much was the big car?

Mr. COOPER: \$2,800.

Hon. Mr. STEVENS: \$2,800 for the new car and \$850 for the old.

Mr. GEARY: Would you state, in the language of the street, if possible, just where that would be reflected; take your income statement here and the one before us.

Mr. MATTHEWS: Take the question of freight trains, 316, page 20. Just take a theoretical case. We have an old car valued at \$850 and are substituting a new car valued at \$2,800, with a theoretical salvage of \$100. The first entry

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is Debit Account 316, that is, freight train car retirements, \$750. Debit Account 716 in the Balance sheet, Material and Supplies, page 14, \$100. Credit Account 701, on the same sheet, with \$850. Now, that has taken care of the property account and the income up to that point. Then the purchase of the new equipment is a straight addition to 701 and a credit to 708.

Mr. GEARY: Yes, I see that. Then 701 keeps mounting does it?

Mr. MATTHEWS: Well, it keeps mounting, Mr. Geary, if the purchases exceed the retirements.

Mr. GEARY: Yes, that is what I mean, on the instance that you have given us.

Mr. MATTHEWS: Yes, if the purchases exceed the retirements it mounts. If a road was retiring more than it purchased the property account would go down.

Hon. Mr. STEVENS: My question a moment ago was directed—and it is the only question in my mind—as to the fairness of this method; that is, the difference between the retiring of the \$850 freight car, replacing it with a \$2,800 freight car, and crediting the assets shown with the full \$850.

Mr. MATTHEWS: We credit the assets with \$850 and debit the assets with \$2,800.

Hon. Mr. STEVENS: You are quite right, debit the assets with \$2,800. The question in my mind is whether that is fair to the system.

Mr. MATTHEWS: Supposing, Mr. Stevens, you were operating a railroad with one freight car and this freight car was retired; you bought a new one, and in submitting your balance sheet would you not expect to find in that \$2,800? That is the car you have got, that is the theory.

Hon. Mr. STEVENS: I quite understand the theory.

Mr. MATTHEWS: That is the fact, is it not?

Hon. Mr. STEVENS: But you have on the system one hundred and some odd thousand cars. You have a car which we will say this year has done a certain amount of revenue freight work, and it is an \$850 car. You retire that car and you replace it with a car that will carry double the amount but its cost is \$2,800. Now, the question is whether your income from the operation of a \$2,800 car is going to be as profitable to the company as the income from the old \$850 car?

Mr. MATTHEWS: It is a difference in costs—

Hon. Mr. STEVENS: You can increase your assets, but is it a true reflection of your company's condition?

Mr. MATTHEWS: I am afraid I cannot agree with that, sir.

Hon. Mr. STEVENS: That is the question in my mind.

Mr. MATTHEWS: True condition is a pretty definite statement. I think the true condition is that the property has an asset of \$2,800.

Hon. Mr. STEVENS: At the present time you are replacing old equipment with new equipment, and this applies more perhaps to the motive power than it does to the car, very expensive motive power, and if you set up a depreciation account now and then I could appreciate the real soundness of the system that you are following.

Mr. MATTHEWS: Well, Mr. Stevens, I am afraid I have set out our views. I must say that I have attended a great many meetings and gatherings in the United States and Canada, of men who have given their lives to the question of railroad accounting and there are two distinct schools of thought. I am not prepared to say that one is wrong to the exclusion of the other.

Hon. Mr. STEVENS: But you are entirely satisfied that that is the situation?

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Mr. MATTHEWS: Our opinion is that the present system is sound, always provided that the relationship of the operating department to the accounting department records reflect the actual retirements, or the property that should be retired. But, of course, the danger in this is—and I realize it, because we have all seen its application where properties have been allowed to run down for various purposes, and they have purposely deferred retirements, and at other times have made retirements and kept them out of the accounts. That, of course, is not to be defended from any point of view, but as long as the Canadian National Railways continue to make a fair representation of the retirements we feel that the basis is fair.

Mr. GEARY: You check that retirement up as best you can?

Mr. MATTHEWS: Yes, Mr. Geary, we do. The question of capital expenditures is a question of continuous check with us.

Mr. GEARY: May I just follow that. Assuming, as the balance sheet stands, that there is just the one car retired next year, \$850, then there is a credit to 701, that is, it is decreased by \$850.

Mr. MATTHEWS: Originally the \$850 that was in it, so you have nothing there then.

Mr. GEARY: Assuming you have all this, and then 716 is charged with \$100.

Mr. MATTHEWS: That is the value of the material.

Mr. GEARY: So your 701 would be decreased by 650,000—

Mr. MATTHEWS: Yes, and this income account would absorb the loss.

Mr. HANSON: What is the system followed by the Canadian Pacific Railway?

Mr. MATTHEWS: I am afraid you will have to ask Price, Waterhouse about that; I do not know. We can give you all the information about the Canadian National, but I am sorry I cannot tell you anything about the C.P.R.

Mr. GEARY: Account 701 to-day, assuming the figures as of January 1, 1923, are correct, represents what is there on the system—

Mr. MATTHEWS: Mr. Geary, if you take that balance sheet item by item, and take the statement we make at the first of January, 1923, when we accepted what anybody else would have had to accept, a figure which could not be checked, every asset and liability has been audited, I think, as of December 31st. If you pick out any account we will tell you how we do it, and to what extent. The questions of securities, cash, accounts receivable and payable—anything at all on that balance sheet is audited by us at the end of December, starting with the capital expenditure as of the first of January, 1923.

Mr. GEARY: And what you have to say about capital—I do not want you to embark—

Mr. MATTHEWS: Do not get me doing that.

Mr. GEARY: But there is some yardstick or some rule—

Mr. MATTHEWS: Decidedly. We work on the basis of the Inter-State Commerce Commission's classification, which, whilst it is not perfect—it has its human weaknesses—at the same time is the product of the best accounting knowledge and men which they have. They have been getting together since 1887, or something like that, but the Inter-State Commerce Commission has really exercised real accounting control since 1907, so you might say that it has been for twenty odd years and in that time it was made a subject of some change, but they are constantly getting together so that we are working on the accepted basis of all American railroads, and whether it be right or wrong it is the best that is available, and it is uniform, which is perhaps more than

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can be said for all other railroads. The Canadian National Railways is subject to a definite basis, and perhaps there would be a little better understanding of some things if that were true all around.

Mr. GEARY: You use that rule in splitting expenditures?

Mr. MATTHEWS: Yes.

Mr. GEARY: Relaying track or something of that sort?

Mr. MATTHEWS: Yes. We follow the Inter-State Commerce Commission. The relaying of track is based upon the excess weight, ties are treated according to their own particular rule. For instance, the labour of taking up and putting down ties is all operating expense. Replacing a trestle is treated on a little different basis than rails. It is on a retirement basis, whereas rails are on an excess weight basis, but all on the basis which have been accepted by American railroads for the same thing. It may be subject to change, and when it does we will have to abide by it.

Mr. GEARY: The question which occurred to me, Mr. Matthews has answered, that is, that his certificate while it seems a little wider than a corresponding one I have read, means the same thing, and it does represent the true financial state of affairs at the moment. There is no reservation?

Mr. MATTHEWS: Except on the property. We have no reservation in that balance sheet with that exception. That brings up a very big question, that if this property were revalued the complexion of this balance sheet would change according as the valuation differed from the books as at the first of January, 1923. If at any future time there were any change in the capital structure—and I mean by that, capital stock structure—the relationship of these advances by the Dominion government would change, but at the end of December, 1928, the holdings of the Dominion government, their advances and so forth, were stated as being in agreement with the government's accounts, subject to certain reconciliations, and it was agreed to by the government. Now, as far as we are concerned, they are the creditors, and as long as the Dominion government agree to the figures shown there, we are not in a position to say whether it should be increased or decreased, but I am saying if in future years there should be any drastic change in the policy, those figures would change accordingly to those stated as of a given date.

Mr. GEARY: I notice in one of the reports of the Department under "Liabilities" on page 15, "Funded debt unmatured on loans from the Dominion amounting to \$614,000,000; interest accrued but unpaid"—so much. There is no compounding of interest there?

Mr. MATTHEWS: Simple interest by the year. The increase in that account for the year is approximately offset by the income account for the year, account 546a.

Mr. GEARY: That is quite true, but when the government charges interest on the above, it is at simple interest only?

Mr. MATTHEWS: Yes. I would say this: if you were my banker—

Mr. HANSON: He would compound interest by the month.

Mr. MATTHEWS: —and you charged me simple interest and I get a certificate from you at the end of a month, I do not know whether you should charge me compound interest. The fact is you certify that interest liability as being correct.

Mr. GEARY: You do not care to offer an opinion as to whether or not the government should compound that?

Mr. MATTHEWS: No; that is entirely outside of our mission. We are not in a position to tell the government what it should do. The government is the

creditor. Take for instance, account 758. It is in exactly the same position, "Loans and Bills Payable." The National railway owed that to the bank, and if we agreed with the bank's certificate, we did not stop to ask whether they should have charged 6 per cent or 5 per cent. They say that is the liability we owe. Very well.

Mr. GEARY: I am not finding fault, but I am asking you to say whether in your opinion that should be compounded.

Mr. MATTHEWS: No. You can appreciate that that is entirely outside the field of accounting. The accountant is not the administrator, and has no means by which to criticize administration. He can simply state facts as he finds them, and if the figures presented to him are not, in his opinion, fair, he will so state in his certificate.

Mr. GEARY: In regard to these liabilities: I know it is a difficult matter with all these forms of outstanding securities, but with how many do you deal?

Sir HENRY THORNTON: There are, as I recall it, 169 different mortgages. Those mortgages vary as to conditions, maturity, rates of interest, guarantees, and so forth, on parts of the property upon which they are liens. In some cases it will be a first lien on the property for a few hundred miles, and on the next few hundred miles it may become a second or third lien. It is all the result of having taken into one system a number of private companies which were financed in various ways throughout a period of years. All of that we have inherited, and have been trying to unravel ever since, so that it makes, I should say, our financial structure far and away the most difficult to understand and the most complicated of any commercial enterprise which exists.

Mr. GEARY: These are all submitted to your auditors?

Sir HENRY THORNTON: Oh yes.

Mr. HANSON: As these securities mature you issue your own in refund?

Sir HENRY THORNTON: That has been the practice.

Mr. HANSON: As time goes on, they will all disappear, except the perpetual debenture stock? Are there any perpetual debentures?

Sir HENRY THORNTON: Yes, there are some perpetual debentures.

Mr. GEARY: \$120,000,000 of Grand Trunk at 4 per cent; 5 per cent for another \$20,000,000—

Hon. Mr. DUNNING: There are some Canadian Northern perpetu-als, too.

Mr. HANSON: As I understand it, this is a continuous audit? You have men in there all the time?

Mr. MATTHEWS: Mr. Hanson, a man. We have about eight offices on this work, including our American offices on the American properties, and our offices from Vancouver right through to Montreal. The work is controlled from one source. This is the master control of our audit work, so we do not have one group of men thinking one way and another group thinking another, because the questions have to be consolidated in a given way at the end of the year, but our work is divided into two main sections. There is the detail work, what we call our continuous work throughout the year. That I would divide into three main headings; first, we make tests of the cash receipts and disbursements. Do not misunderstand me. I am not making the statement that we can examine every cash transaction, because that would obviously be foolish, but what we do is to make tests of the important cash transactions over the system. Now, in addition to that we have over the last five or six years considered the accounting system that the railway has adopted in their various units with a view to ascertaining if their own internal audit system was sufficiently complete to protect the railways against a loss, either from loose practice or from fraudulent

[Mr. O. A. Matthews.]



practice on the part of anyone in the railway, and I must say that at any time we have brought up any questions of internal change, there has never been the slightest difficulty in arriving at a common ground. If there are still units in the system we have not as yet been able to reach, it is not because the National railway officials have not been willing to make any change. We work along those lines to make tests of the larger transactions, without stated amounts, and to work along the lines of protective measures within the railway itself. Then the third point is the continuous audit and the distribution between Capital and Income. That is continuous.

I would like also to make clear at this point that we do not hold ourselves responsible for the appropriations that the Government make, that is the financing. We look upon the government as the banker, and if at the end of the year the banker says we want so much, we are content with that. But what we do do is this, we examine these divisions, where there are elements of capital and income, to see if the income account is being fairly reflected. That is to say, if there is any unfairness in its distribution between the two, we would take it up. But I must say that the railways up to date have followed a practice of accounting on capital expenditures that it is very difficult to find much quarrel with; but it is the most important work that we do, and we are doing it all the time.

Now that leads up to the final work. You see, during the year we are doing that constantly, all the time, at all our offices. At the end of the year, the thing is then to put together what we have found during the twelve months; because obviously it would be impossible for us between the end of February and the 15th or 16th March to give any certification for figures of this kind which involved something like ninety balance sheets. We have to do it during the year. Now we make an audit of all the constituent balance sheets at that date. Next comes the consolidation of those balance sheets, with the important question of the elimination of all inter-system transactions. So that you get a picture finally of the position of the National Railway system to the public. This does not represent the ninety balance sheets added together by any means. They are taking all together the regions and the corporations, between three and four hundred million which are taken out of this before these figures come. The same with the Income Account. The interest between system companies and so on, is eliminated, with the exception of the separately operated properties; and the reason they are not eliminated entirely is that the Inter-State Commerce Commission calls for the net result of those on their own. That is a brief summary of what we do. Of course we take and divide up the system into regions, separately operated properties, system headquarters and corporate holding companies.

Mr. GEARY: You do not check up the actual payments made in the course of operations?

Mr. MATTHEWS: As I said, we make tests of major cash operations, both receipts and disbursements, and support that with an examination into the accounting methods employed within the railway itself.

Mr. GEARY: But you do not check the payments to a section gang, for instance?

Mr. MATTHEWS: Oh no. On the question of payrolls, obviously the best that any auditor can do is to make certain tests. But the big feature on payrolls is to see what internal checking up the railway corporation has within itself. That, after all, is far more important than a stack of detail work. I remember once, when I first went to Chicago, we were put on detail work which took some months; then suddenly one day somebody decided to apply

[Mr. O. A. Matthews.]

a little common sense to it, and we found out more in one afternoon than we had done during those months with an expenditure of a good many thousands of dollars.

We have had the fullest co-operation from the officials of the National Railways in anything which would better the position or fortify the interests of the company.

Mr. POWER: Do you make tests of payments in the construction of new work?

Mr. MATTHEWS: Yes.

Mr. POWER: How do you do that?

Mr. MATTHEWS: From the vouchers and the receipts.

Hon. Mr. STEVENS: Just one question occurs to me from your observations. The current assets, cash \$18,900,000, what is that made up of?

Mr. MATTHEWS: Cash in bank, practically.

Hon. Mr. STEVENS: All over the country?

Mr. MATTHEWS: Yes, everywhere. But that does not agree with the total of the banks' certificates. The banks' certificates would be a great deal more than that; the difference being that the railway has drawn cheques against those balances; so that that is the net cash position certified by the banks concerned.

Mr. GEARY: And cash in tills?

Mr. MATTHEWS: Cash on hand; but principally that is in hand in 720, working funds. 708 is principally cash in banks.

Mr. POWER: This may sound like a fool question. How do you get at the cost of construction of branch lines? Are they given out principally by contract?

Mr. MATTHEWS: I think Mr. Hungerford could better answer that. That is an administrative matter.

Sir HENRY THORNTON: May I answer that question? Yes, they are given out by contract. Tenders are asked for, and almost invariably the contract is let to the lowest bidder.

Mr. GEARY: Your track-laying you do yourselves?

Sir HENRY THORNTON: Yes, we do that ourselves.

Mr. HANSON: As to the structures and bridges, have you not changed your policy? Years ago most of the bridges, on the Intercolonial, used to be built by tender, that is the sub-structure; but now I understand there has been a change of policy and you keep a bridge-building department in each region?

Sir HENRY THORNTON: We have a bridge-building department and any ordinary job we would do with our own forces. If it was a very large piece of work we would probably ask for tenders.

Mr. HANSON: So that the minor work it is usual now to do by day's work, and the major work you ask for tenders?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (*Melfort*): You do it to better advantage with your own forces?

Sir HENRY THORNTON: You have to have a force, and small work you can usually do to most advantage by them.

Mr. McLEAN (*Melfort*): In any work, you have to pay for moving materials, and so on, sometimes large distances; and with your staff you can do it to better advantage.

Sir HENRY THORNTON: Yes.

[Mr. O. A. Matthews.]



Mr. MATTHEWS: I do not know, gentlemen, whether you have gathered from what I have said, that we construct these accounts. We do not construct these accounts. These are constructed by the railway officials. We simply audit them. The initiative behind the initial idea of getting the consolidation of these accounts was entirely with the railways' officials, and we did not have anything to do with it. In the beginning, in 1923, they certainly had a task on their hands which took a great deal of experience to put into shape. And it is a singular thing that after six years of practical application the basis is still the same to-day as it was the first year that they made this original consolidation.

You know when these accounts were first brought together, you had your Canadian Northern, Grand Trunk Pacific, Grand Trunk and I.C.R., all with their different accounting systems, and so on. That rested entirely with the railways to find some means by which a consolidation could be arrived at which would give a fair reflection of those properties, all with different ideas.

I would like to make clear that whatever you find in these accounts, they are none of our construction whatever, and we have simply audited them.

Mr. HANSON: You set up the balance sheet, do you not?

Mr. MATTHEWS: No Sir, that is perhaps a common misunderstanding. That is done by the railway officials. We audit the balance sheet.

Mr. HANSON: Is that the function of a firm of chartered accountants?

Mr. MATTHEWS: Yes, invariably.

Mr. HANSON: Your firm set up the balance sheet of the consolidated Fraser Company every year.

Mr. MATTHEWS: We do that by a special arrangement; but that is not the practice of railroads. I wanted to make it clear that we do not construct these accounts.

Mr. GEARY: Taking any account, say 371, superintendence account, what property goes into that account?

Mr. MATTHEWS: That is according to the classification.

Mr. GEARY: Do you check up the items to see that the items of Superintendence are right?

Mr. MATTHEWS: Our certificate says that we certify to the balance sheet, the profit and loss and the Income Accounts. We do not say that we certify to the attached classification of operating expenses. What we do is that we have to stop some place; so as long as the charge is a proper one for, say, 501, Railway Operating Expenses, we do not go on and reclassify that, as between superintendence and so on. It is the Income statement that reflects or contains the position of the operation. We stand behind the primary distribution of the Income Statement, profit and loss and balance sheet, and the total of the railway operating expenses, and so on.

Mr. GEARY: You take those railway operating expenses, the total, by taking the accounts which are presented to you, without checking up the primary accounts at all?

Mr. MATTHEWS: If it is a proper operating expense charge, we see it is charged to 501. Now the railway splits that up into various primary accounts, whether revenue or operating expenses, from 1 to 400; and the total of their expenses will agree with 501 or 531 in the Income statement. Just the same, we do not continue on through this statement to check up the car miles and all the rest of the statistical information supporting the main picture.

The CHAIRMAN: Is that all, Mr. Geary?

Mr. GEARY: That is all for me, thank you.

Witness retired.

The CHAIRMAN: Thank you. Is it the desire of the Committee to go on examining the rest of the accounts?

Mr. GEARY: I think we had better look over the balance sheet.

Mr. HANSON: Sir Henry outlined a form of procedure yesterday, and I think we had better follow that.

The CHAIRMAN: If you want to examine the accounts further, you will have to go into the general accounts.

Sir HENRY THORNTON: You have the consolidated Balance Sheet and the assets and liabilities, and that has been more or less discussed now. Do you want to leave that and turn to page 16?

Hon. Mr. STEVENS: Might I ask, Mr. Chairman, what further work you purpose doing? I only want to have an idea.

The CHAIRMAN: Previously we examined the analysis, and then we went into details of the operating accounts. Now we have decided not to examine the detailed operating accounts; therefore there remains only the accounts mentioned in the index, such as the profit and loss, the income statement, and the balance sheet.

Mr. GEARY: I think Mr. Cooper might help us. I think, Sir Henry, we might run over the balance sheet and profit and loss.

Sir HENRY THORNTON: Certainly, I should think perhaps if Mr. Cooper would start with the assets and read the account number and the heading title and go on through it, then if any member has any question to ask, it can be interposed. Is that what you would like to do, Mr. Chairman?

The CHAIRMAN: Yes.

Sir HENRY THORNTON: Account 701.

Mr. HANSON: As to this first item, you agree in what Mr. Matthews said about the way it was made up?

Mr. COOPER: We made it up.

Mr. HANSON: Have you ever had a physical valuation made of the properties of the company?

Mr. COOPER: No.

Investments; 701. Investments in road and equipment, \$1,942,146,252.94.

Sir HENRY THORNTON: That would take years to have made. Some years ago the Inter-State Commerce Commission started on a scheme to value all the railway property in that country. They started that some fifteen years ago and they are still at it.

Mr. GEARY: It is the amount invested in the property of the company?

Sir HENRY THORNTON: It was just a physical valuation that they started to make.

Mr. GEARY: They wanted a physical examination?

Sir HENRY THORNTON: Yes. What they really went to find out was to what extent, if any, the railways were over-capitalized or watered. That was, I think, the real object of the investigation. I was merely explaining in answer to Mr. Hanson's question, that we have had no physical valuation of our property, and to do so would be an almost interminable task.

Mr. GEARY: I agree with you. That does not represent the value but merely the book value?

Mr. COOPER: Book value. Take the terminal properties; in the City of Montreal, there has been a tremendous appreciation in value.

Mr. GEARY: Say ten years ago, the same property bought in 1914, physically would be much more valuable to-day, less depreciation than it would be then?



Mr. COOPER: There is both depreciation and appreciation at work in the properties of the system. Just what the present day valuation would be as compared with the book cost is something which can only be ascertained by an appraisal.

Mr. GEARY: The same with the book cost?

Mr. COOPER: The same with the book cost. The book cost goes back over the history of the present companies and their predecessor companies, away back to the beginning of railroad history in Canada, in 1832 I think it was.

Mr. GEARY: Anyway, since 1923 as worked out by Mr. Matthews, this is accurate?

Mr. COOPER: From 1923.

Mr. McLEAN (Melfort): On the question of the original cost, can you build your branch lines to-day for the same cost as you have charged against the original construction, taking steel and ties into consideration, but allowing for the difference in the weight of steel?

Mr. COOPER: I do not know what the original costs were.

Sir HENRY THORNTON: In a general way, construction costs more to-day than it did forty years ago.

Mr. McLEAN (Melfort): I said, allowing for the difference in the weight of steel.

Sir HENRY THORNTON: That is a pretty hard question to answer. Perhaps the best line on that is to be had from some figures I saw a year ago that Lord Brassey had. He was a large railway contractor; he worked all over the world, and a great deal in Canada. It developed very curiously that there had not been much difference in the cost of railway construction outside of property values in the last thirty or forty years, for the simple reason that some thirty or forty years ago much more railway construction work was done by manual labour, because labour was cheaper, than by labour-saving devices. As the cost of labour increased it forced the contractors to economize by devising and purchasing labour-saving machinery, and the two tended to balance, so that there has not been a great deal of difference outside the values of property. I should say that, as far as our branch line work is concerned, where the work is light and the grading is light, for instance on the prairies, the cost of construction to-day would be greater than it was thirty years ago.

Mr. McLEAN (Melfort): On account of the increased cost of steel and ties?

Sir HENRY THORNTON: Probably that, and light work, not involving heavy work.

Mr. COOPER: I may say on the question of the Interstate Commerce Commission proceedings that they adopted the 1914 scale of prices as being representative of costs prior to that date.

Hon. Mr. DUNNING: Of costs prior to that date?

Mr. COOPER: Yes, sir. They said that the 1914 scale of prices was a pretty good yardstick to measure construction costs back to the beginning.

Mr. GEARY: Practically the curve of costs away back; up to 1913, just before the War and then they went up like mad to 1921 or 1922, but they have turned down a little lately.

Mr. HANSON: You are not yet back to pre-war costs?

Sir HENRY THORNTON: No. And there are certain forms of railway construction performed to-day which could not have been performed thirty or forty years ago, particularly sub-aqueous work.

Hon. Mr. DUNNING: The difference is marked on the basis of the bond guarantees by the provincial government. Before the War \$15,000 a mile on the Prairies was supposed to cover the initial expense, whereas to-day the Branch lines are costing up to thirty thousand dollars a mile on the average?

Sir HENRY THORNTON: Yes.

Mr. HANSON: I am surprised at the statement of Sir Henry as to the relative cost of construction.

Sir HENRY THORNTON: I am not speaking of light prairie work. I am speaking of what would be called ordinarily heavy construction work.

Mr. GEARY: The St. Clair tunnel was built thirty or forty years ago, and it is going yet very well.

Sir HENRY THORNTON: Yes, but I would hesitate to say whether it could be built cheaper to-day or not.

Mr. COOPER: The next is No. 702, Improvements on Leased Railway Property.

Mr. GEARY: Is that perpetually leased?

Mr. COOPER: Most of them are for 999 years.

Mr. GEARY: So that it is yours, it belongs to you?

Mr. COOPER: Yes, in that way.

Mr. HANSON: On No. 703, the next item, has the railway set up a distinct line of policy with respect to sinking fund requirements, and if so, does that cover all?

Mr. COOPER: The sinking funds which we have to-day are in accordance with the particular deeds of trust, which call for a sinking fund arrangement.

Mr. HANSON: Some may and some may not call?

Mr. COOPER: Our present issues are not sinking fund except as to equipment.

Mr. HANSON: Has the management given consideration to this question of debt retirement at all; you say your major issues now are not sinking fund except on equipment?

Sir HENRY THORNTON: That should be answered in this way: for the last four years the administration of the Railways has been making an examination, an investigation and a study of the financial position of the Railway with respect to capital account. That involves a great deal of work, because many of the old records in the old constituent companies were not in very satisfactory shape, and it took a long time to develop the facts, and as a result, although there has been developed a plan which will eventually be presented to the Government with a view to a reconstruction of the financial position—

Mr. HANSON: That is, in respect of the whole capital structure. I was referring particularly to your funded debt.

Sir HENRY THORNTON: Well, of course that necessarily involves the funded debt. It involves dealing with the funded debt, because all the items of the funded debt will have to be dealt with.

Mr. HANSON: You could not interfere with the funded debt in the hands of the public?

Sir HENRY THORNTON: No, but as these various securities in the hands of the public become due, they are refinanced according to the circumstances of the times and to the best advantage of the Company.

Mr. GEARY: I think Mr. Hanson means that this funded debt in the hands of the public is not being provided for at the moment.



Sir HENRY THORNTON: You cannot do anything with it.

Mr. HANSON: You can of course, on your refunding operations?

Sir HENRY THORNTON: Yes, when the refunding time comes.

Mr. HANSON: You are doing that every year?

Sir HENRY THORNTON: We are doing that all the time.

Mr. HANSON: But you are not making any provision for these retirements?

Sir HENRY THORNTON: No.

Mr. HANSON: Why?

Sir HENRY THORNTON: Because you cannot. Let us say that a certain issue of one hundred million dollars becomes due this year, we cannot pay that off.

Mr. HANSON: You must refund it. We are at cross purposes for the moment. In your operations for the refunding bonds that go out to take care of that one hundred million dollars, should you not as a prudent railway executive make provision for the retirement of that during the life of that particular bond issue? Any industrial or other corporation would have to do that, but yours is a government organization.

Sir HENRY THORNTON: All these things have been studied and taken care of in the proposed reconstruction of the Company's financial affairs.

Mr. HANSON: When are we going to get that plan?

Sir HENRY THORNTON: I will have to refer you to the Minister.

Hon. Mr. DUNNING: There is this point in connection with the scheme generally, Mr. Hanson, that many of the constituent companies issuing securities in the past issued many more bonds without sinking fund provisions than with them; I mean it was not a fixed principle in railway financing to issue sinking fund bonds. I mean, it is not a fixed principle of their way of financing. That is of course administered by the sinking fund already in existence.

Mr. HANSON: There have been so many different issues by so many different companies that the method has been more or less haphazard, just what the contingencies of the occasion might require.

Sir HENRY THORNTON: Some one hundred and sixty-two issues.

Hon. Mr. DUNNING: I have in mind the C.P.R., which is regarded as pretty well financed, their perpetual investments, for instance.

Mr. HANSON: They are issued in the form of capital, instead of paying dividends.

Hon. Mr. DUNNING: In regard to the matter of financial reconstruction, it is pretty hard to say anything for publication just now, but it is public property that there is an application now on behalf of the Junior Grand Trunk Stockholders. The matter of policy in relation to granting or refusing is before the Government, and without my elaborating it, you will understand what the effect would be upon any financial reconstruction. I may say both for the Government and the Canadian National that we desire at the earliest moment to get this financial structure put into shape. In connection with the property, as Minister I attach very great importance to the capital structure it is to have, so as to give the greatest possible incentive to the management to have a favourable showing instead of having a lot of paper indebtedness which cannot be represented by actual assets.

Mr. HANSON: That is one side of the picture. You know there is a very strong argument against that.

Hon. Mr. DUNNING: It is arguable. The Government is convinced that such a reorganization of the financial structure is absolutely necessary, and that it is good business. The very confusion which exists in these accounts

provides one very strong argument indeed for straightening the structure out. As to any arguments against it, I will be glad to listen to them; I do not know what they are.

Sir HENRY THORNTON: I should not want to embark upon any discussion in respect of any revision of the financial structure until the whole proposal could be placed before those who are interested.

Mr. HANSON: I am not seeking to go into that.

Sir HENRY THORNTON: All I can say is that it would be unprofitable, and would give a wrong impression on certain matters.

Mr. HANSON: I hope you will keep in mind that any reorganization, and particularly any writing off by the Government is going to bring upon your heads demands for reduced transportation.

Sir HENRY THORNTON: I doubt whether we will ever be able to dodge that, no matter what happens.

Mr. GEARY: It might perhaps mean a show of strength.

Mr. HANSON: I will not go any farther with it.

Hon. Mr. DUNNING: I would like to point out that if our freight rate structure to-day were based upon the balance sheet necessities of the Canadian National, our freight rates would be very much higher than they are; in other words, we can readjust this capital structure a long way before we can bring it within range of our present freight charges.

Sir HENRY THORNTON: In some respects our poverty is an asset.

Mr. HANSON: A safeguard.

Mr. GEARY: The four per cent you spoke of is the one that is in arbitration?

Hon. Mr. DUNNING: That would not apply to the four per cent. I am speaking of the Grand Trunk One, Two and Three per cent and Preference, not shareholders. These are the people applying for a fiat to sue. The four per cent is not in question at all.

Mr. GEARY: I thought you said four per cent.

Hon. Mr. DUNNING: No, the one, two and three and Preference and Ordinary.

Mr. COOPER: The next is No. 704, Deposits in lieu of Mortgaged Property Sold.

Mr. HANSON: What does that mean?

Mr. COOPER: Under the common trust, when there is a sale we must deposit the proceeds with a trustee.

Mr. HANSON: A very awkward situation to deal with at times.

Mr. COOPER: Account 705, Miscellaneous Physical Property. Account 706, Investments in Affiliated Companies.

Mr. HANSON: Generally speaking, what would be the nature of 707, Other Investments?

Mr. COOPER: Account 707, Other Investments, that would be investments in non-allied companies. It also includes considerable Dominion Government bonds held by our subsidiary companies for various purposes.

Hon. Mr. DUNNING: I wish it were bigger, Mr. Hanson.

Mr. HANSON: Yes, if they are good. Investments in outside hotel properties. I doubt if that satisfies them.

Sir HENRY THORNTON: They are never satisfied.

Mr. COOPER: Account 708, Cash. Account 711, Special Deposits.

Mr. GEARY: Does "Miscellaneous Physical Property" include real estate?



Mr. COOPER: Lands, real estate, and all property.

Mr. GEARY: That is cost price?

Mr. COOPER: At cost price, yes. Account 712, Loans and Bills Receivable.

Mr. HANSON: "Special deposits." Those are principal payments, are they?

Mr. COOPER: That is the proceeds of bond issues sold on deposit and waiting release on the authority of the Minister of Finance. Account 713, Traffic and Car Service Ballances Receivable. Account 714, Net Balances Receivable from Agents and Conductors. Account 715, Miscellaneous Accounts Receivable. Dominion Government—Operating Deficit on Eastern Lines. Account 716, Material and Supplies.

Mr. HANSON: Is that a fairly constant figure, or is it constantly mounting?

Mr. COOPER: Which?

Mr. HANSON: The last one, 716.

Mr. COOPER: There was a decrease during the year of \$823,000.

Mr. HANSON: I suppose it is pretty hard to keep it down?

Sir HENRY THORNTON: Of course, that is a thing that every railroad is constantly hammering at, and our effort is to reduce it to the irreducible minimum. It is something, no matter how small it is, we should now be satisfied with.

Mr. GEARY: It is working capital in a way.

Mr. COOPER: It is working capital.

Mr. HANSON: It is current assets.

Mr. COOPER: It is considered working capital.

Mr. GEARY: It is an amount of money that is locked up.

Mr. McLEAN (Melfort): The size of that would depend a great deal on freight conditions?

Sir HENRY THORNTON: And construction work that is going on.

Mr. COOPER: Account 717, Interest and Dividends Receivable. Account 718, Rents Receivable. Account 719, Other Current Assets. Deferred Assets: Account 720, Working Fund Advances.

Mr. HANSON: Perhaps we might have some little explanation of the whole subject of deferred assets. I am not an accountant; I am not a railway man, so I must confess to a certain degree of ignorance.

Mr. COOPER: Current assets are those which are immediately collectable or realizable.

Mr. HANSON: Principal payments.

Mr. COOPER: Principal Payments would be an unadjusted debit. Anything which is not collectable within two years of the date of the balance sheet is considered deferred. Account 721, Insurance and Other Funds.

Mr. HANSON: Do you carry your own insurance?

Sir HENRY THORNTON: Yes.

Mr. HANSON: You build up the fund for it.

Sir HENRY THORNTON: We have been building up that fund since 1923. The fund now amounts to, I think, about \$11,000,000, does it not?

Mr. COOPER: Including the Merchant Marine, yes.

Sir HENRY THORNTON: Of which \$9,000,000 is for railway insurance purposes, and the remaining two million some odd thousand is for government marine insurance. So that the total insurance fund surplus of the National Railways and the Government Merchant Marine amounts to—

Mr. COOPER: \$12,500,000.

Sir HENRY THORNTON: That is invested in Dominion bonds and other first class securities, and is kept separate. I might say for your information, that the income now from the insurance fund a little more than off-sets the annual losses from fire.

Hon. Mr. DUNNING: And the fund has been built up entirely since 1923?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (*Melfort*): You do not need then to make appropriations for it?

Sir HENRY THORNTON: I should think the policy ought to be to continue to make appropriations for the benefit of the fund until it reaches \$15,000,000 or so.

Mr. HANSON: That would be the safety point.

Sir HENRY THORNTON: That is a sound policy to pursue.

Mr. GEARY: What were the losses last year?

Sir HENRY THORNTON: The marine losses last year were \$482,000. We had some bad luck. The Canadian Explorer was damaged by heavy weather, and there was a collision between the Canadian Explorer and a steamer in the River Scheldt in Holland. The Canadian Mariner, on a voyage from Antwerp to Quebec, was damaged, and the Canadian Constructor was damaged by heavy weather.

Mr. HANSON: We can go into those when we go into the Merchant Marine.

Mr. McLEAN (*Melfort*): Is it correct to say that you do not pay out any insurance premiums at all, I mean outside of your own organization?

Sir HENRY THORNTON: No. We do all our own insurance.

Mr. HANSON: You have your officials bonded?

Mr. McLEAN (*Melfort*): I do not mean liability as to your men, but insurance as to your physical property?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Are you included in any workmen's compensations?

Sir HENRY THORNTON: I should say we are.

Mr. GEARY: How much does that cost?

Sir HENRY THORNTON: We will get that for you.

Mr. MILNE: Does this insurance take care of the cargoes too?

Sir HENRY THORNTON: Oh, yes, anything for which we are responsible.

Mr. MILNE: Are you responsible for the whole amount that you carry.

Sir HENRY THORNTON: I do not know; I think we are.

Mr. COOPER: Account 722, Other Deferred Assets. Unadjusted Debits: Account 723, Rents and Insurance Premiums Paid in Advance. Account 724, Discount on Capital Stock.

Mr. HANSON: Is that an old item carried forward?

Mr. COOPER: Yes. It is the discounts with some of the subsidiary companies which are not held within the system.

Mr. HANSON: And you have not been able to write it off?

Mr. COOPER: Discount of Capital Stock, like the stock itself, is a permanent item on the balance sheet. Account 725, Discount on Funded Debts, which is the next item, is amortized over the life of the security. Account 727, Other Unadjusted Debits.

Mr. HANSON: That seems to be a good place to stop.

The Committee adjourned until Friday, April 26, at 11.00 a.m.









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HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5—FRIDAY, 26th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department,  
Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

OTTAWA

F. A. ACLAND

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1929







## MINUTES OF PROCEEDINGS

ROOM 268, HOUSE OF COMMONS,

FRIDAY, April 26, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Bell (St. Antoine), Cantley, Dunning, Geary, Gray, Jelliff, Jenkins, McLean (Melfort), Milne, Stevens.

*In attendance:* Sir Henry Thornton, President, Canadian National Railways, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Sir Henry Thornton supplied an answer to a question asked at the last meeting of the Committee.

Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Canadian National Railways, was heard respecting purchase of materials and supplies.

### ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

The Committee resumed consideration of the Consolidated Balance Sheet. The Liabilities, as indicated on page 15 of the Report, being items 751 to 784, both inclusive, were severally called, and discussion took place.

At 1 p.m., the Committee adjourned until Tuesday, 30th April, at 11 a.m.

JOHN T. DUN,

*Clerk of the Committee.*





## MINUTES OF EVIDENCE

COMMITTEE ROOM 268,

HOUSE OF COMMONS,

FRIDAY, April 26, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

Hon. Mr. STEVENS: Mr. Chairman, I want to ask for one correction. On the whole, I think the reporters are doing very well, but on page 17 there is a figure shown in the third last line, the line reading as follows: "I find there is an item of \$40,000 borrowed from the bank." The figure of "\$40,000" should be "\$40,000,000".

The CHAIRMAN: Have you any replies to questions, Sir Henry?

Sir HENRY THORNTON: Mr. McLean (Melfort) asked the amount of compensation paid during the year 1928 on account of injuries to employees. Compensation charged into accounts 274, 332, and 420 in 1928 on account of injuries to employees, including fatal accidents, amounted to \$1,572,658.55.

Hon. Mr. STEVENS: Was that about normal?

Mr. COOPER: Yes, I would say that that is a fair average.

The CHAIRMAN: Mr. Vaughan, the vice-president in charge of Purchases, is here this morning, but is compelled to leave. If there are any questions that any of you would like to ask of him, perhaps it would be well to do so now.

Sir HENRY THORNTON: I think, gentlemen, if there are any particular questions you wanted to ask in regard to the purchase of materials and supplies, if you would be kind enough to ask these questions of Mr. Vaughan now, it would enable him to keep some important engagements which he has for next week.

Mr. CANTLEY: He might give us a statement in regard to the coal supply on the railways, and where it is acquired.

Mr. VAUGHAN: Do you want me to go into it generally? I could start with the Atlantic region and go to the Pacific coast. It would probably take ten or fifteen minutes.

Mr. CANTLEY: Give it to us briefly.

Mr. VAUGHAN: On our Portland division we use coal that comes from West Virginia by barge, and also some ballast coal which comes from the old country. The vessels come up light to Portland, and carry some coal as ballast which we take. We also take coal from the British Empire Steel Company at Portland when they have it to offer. The coal we use in the maritime provinces we take from the mines down there. Our coal purchases are based upon the distance the coal has to be hauled to the point of consumption. We bring up the St. Lawrence river probably 800,000 tons of coal—

Sir HENRY THORNTON: Where does it come from?

Mr. VAUGHAN: From the maritimes, Sir Henry—and that coal is discharged at Levis and Montreal. Altogether we use probably 1,500,000 tons of Nova Scotia coal. Last year the Nova Scotia coal was used as far west as Ottawa and Brockville.

In the Central region, between those points and Port Arthur, we use coal from the United States.

Mr. CANTLEY: So far as the eastern coal is concerned, does it fill your requirements within that district?

Mr. VAUGHAN: It fills our entire requirements, except for some special coal that we may buy in special sizes for use on our fast passenger engines—the 6,000 type engine. We have taken nearly all the coal they can give us. I do not think they have had any complaints about the quantity of coal we have taken from them.

We have our own mines operating in Ohio. They were shut down by labour difficulties for two or three years, but we are operating them now, and this year we will get about 1,750,000 tons of coal from them. We do not bring that east of Toronto, so it does not interfere with the use of Nova Scotia coal.

We also move considerable coal to points on the Georgian Bay, Fort William, Port Arthur and Duluth.

We take about 1,500,000 tons of Alberta coal which comes east as far as Winnipeg, and we buy about 75,000 tons on Vancouver Island, which is brought across by car ferry or barges for use in British Columbia. Altogether we use about 6,000,000 tons of coal per year, of which about 1,000,000 tons is used on the United States Lines, and the balance used in Canada, and of that about 3,000,000 tons is Canadian coal and 2,000,000 comes from the United States.

Mr. CANTLEY: Thank you. My object in asking the question was not to find fault, but rather to get on record the facts as to the genesis of the coal used on the system. So far as I am concerned I would like it definitely understood that I am thoroughly satisfied so far as the use of eastern coal is concerned.

Mr. JELLIFF: Are tenders generally asked for in the purchase of coal?

Sir HENRY THORNTON: Yes. I may say that all our purchases are by tender, although sometimes the tenders are unsatisfactory, and then there may be further negotiations with the tenderers.

Mr. McLEAN (*Melfort*): Is the lower cost shown in the price of coal due partly to the fact that you are operating your own mines?

Mr. VAUGHAN: I do not think so. We only started our own mines about July of last year. The general price of coal in the United States last year was lower.

Mr. GEARY: How many people would tender on a contract?

Mr. VAUGHAN: On our American coal, perhaps somewhere from 50 to 100 tenderers.

Mr. CANTLEY: What about the eastern coal?

Mr. VAUGHAN: Well, everybody who has a mine down there. They all do.

Mr. GEARY: No difficulty in getting tenders? Does it take much time?

Mr. VAUGHAN: It takes a good deal of time because tenders are usually unsatisfactory, and it then becomes a matter of negotiation. That applies to other things, such as ties as well. We advertise for tenders on ties, but it is very seldom that we get tenders at a price which we will accept, and it comes down to a question of negotiation.

Mr. GEARY: But you invariably begin your purchases of coal by asking for tenders?

Mr. VAUGHAN: Yes, always. And the lowest tenderer is always given first consideration.

Mr. McLEAN (*Melfort*): How much of British Columbia is covered by your oil burners?

Mr. VAUGHAN: From Jasper to Prince Rupert, and Jasper to Kamloops. We use coal from Kamloops to Vancouver. The oil is brought up in tankers from California.

Mr. CANTLEY: Have you considered anything in connection with the use on your engines of powdered fuel?



Mr. HUNGERFORD: We have just started a new power plant at Montreal using powdered Sydney coal. We have done nothing as yet with regard to its use on locomotives.

Mr. McLEAN (*Melfort*): Do you use oil chiefly for fire protection in British Columbia?

Mr. VAUGHAN: It is primarily for fire protection, but oil out there is cheaper than coal. Our British Columbia coal is the most expensive coal we buy, as the cost of production out there is very high.

Mr. CANTLEY: If you could get your locomotives to using powdered coal you would eliminate a great deal of the ash and cinders.

Sir HENRY THORNTON: That is true. I do not know just what the state of the art is with respect to the use of powdered coal. Mr. Hungerford is trying it out at one of the power plants, and I suppose if the result of that is satisfactory, we will consider extending the experiment.

Mr. VAUGHAN: Some of the United States roads are experimenting with that fuel and we thought we would wait and see the result of their experience.

Mr. CANTLEY: That means that you will be some years behind them. Great developments are being made in the old country in that direction; no doubt about that. That is the way fuel will be largely used in the future, and it has a great advantage on the railways, as you will get rid of practically all the ash, a great deal of the dust, and practically all the clinkers.

Mr. HENRY: It costs about \$10,000 a locomotive to equip them. They would have to save a ton of coal per day.

Mr. CANTLEY: It is being simplified all the time. It is well worth your investigation, in my judgment.

Sir HENRY THORNTON: Thank you for the suggestion, Colonel. We will follow it up.

Mr. McLEAN (*Melfort*): Have there been many changes in the tie business last year?

Mr. VAUGHAN: No, the price of ties has remained very much the same.

Mr. McLEAN (*Melfort*): You have no trouble in getting an ample supply of ties?

Mr. VAUGHAN: No. Our only trouble is on the prairies. We take all the ties we can get in Saskatchewan, but we have to bring ties into the prairie provinces from Ontario in the east and from British Columbia and Alberta in the west.

Mr. McLEAN (*Melfort*): Have you ever tried Poplar ties?

Mr. VAUGHAN: Yes, but we are not using them now. We are using mostly Jack Pine or Fir at the present time.

Mr. CANTLEY: The supplying of ties in eastern Nova Scotia is the refuge of the destitute. They go into that only as a last resource.

Mr. GEARY: Does your department buy all supplies for every department of the road?

Mr. VAUGHAN: Yes, we do. There is only one item we do not handle, and that is commissary supplies for the dining cars. We handle all the supplies except the edibles, such as furniture, linens, crockery, carpets and so forth. Edibles have to be picked up in a hurry on the road; that is left to the general manager of the dining car department.

Mr. GEARY: You buy everything from a locomotive to a water pail?

Mr. VAUGHAN: Everything from a locomotive to a pin. Our purchases run from \$125,000,000 to \$140,000,000 per year.

Sir HENRY THORNTON: All the purchases are concentrated in the purchasing department.

Mr. GEARY: That is done advisedly, because it is more satisfactory?

Sir HENRY THORNTON: If you did not do that, you would have a lot of little purchasing agents growing up all over the railway, and eventually that would develop a chaotic condition. We have found it more satisfactory to restrict the purchasing to one department.

Mr. McLEAN (*Melfort*): You purchase all supplies in collaboration with the officers of each department?

Mr. VAUGHAN: Yes. If we decide to buy twenty locomotives, for instance, Mr. Hungerford's department will prepare specifications for those locomotives, and they will be passed on to me together with the authority from the President to purchase, and I do all that is necessary after that.

Sir HENRY THORNTON: The purchasing department and the department in which the material is to be used are always in close consultation in order that the purchasing department may secure the article best suited to the needs of the department, having regard to prices and conditions.

Mr. McLEAN (*Melfort*): If the price is not satisfactory to the department which will use the material—

Sir HENRY THORNTON: The price is a matter which rests entirely with the purchasing department, although even there, there are consultations.

Hon. Mr. DUNNING: You purchase all the stationery requirements and office supplies?

Mr. VAUGHAN: Yes, we do, Mr. Dunning.

Mr. GEARY: I have in mind the discussion we had yesterday. I do not think it is a party matter as I am sure that we are all anxious to get at the best solution of the difficulties. I was wondering what the experience of the road was as regards isolated departmental buying.

Sir HENRY THORNTON: That seems to be the practice of every railroad of which I know. It is our practice. You may say that it involves a certain amount of rigidity, and perhaps dilatory action or delay in the purchase of supplies, but that has been reduced to a minimum. Against that is always the danger of extravagances which develop if departments undertake to buy for their own needs. You would find one department bidding against another, and generally speaking, in railway practice, it has been found more economical to restrict all purchases to the purchasing department.

Mr. GEARY: You get a wider view of the market?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Your practice is similar to that of the Canadian Pacific?

Sir HENRY THORNTON: I do not know what their practice is, but I would assume so.

Mr. VAUGHAN: The contracts for very large purchases are made in Montreal. We have regional purchasing agents who purchase against those contracts, and they purchase material running into smaller amounts.

Hon. Mr. DUNNING: They have certain discretionary powers?

Mr. VAUGHAN: They have discretionary power, yes, but copies of all their orders come to our office in Montreal and are checked as to price.

Mr. GEARY: What sort of stuff do they buy?

Mr. VAUGHAN: Well, paints—there are 40,000 different items we buy. I would say that the majority of them are left with them. Their jurisdiction is restricted to about \$2,000 in any individual item. Over that they get authority to buy.



Mr. GEARY: And all overseen by you?

Mr. VAUGHAN: Yes; copies of all orders come to Montreal and are checked. They are advised by Montreal of any changes in the market conditions in regard to all classes of commodities.

The CHAIRMAN: We were at page 15, item 751.

Mr. COOPER: Account 751, "Capital Stock." The make-up of that statement is detailed on pages 34 and 35 in the printed report, "held by the government and others, \$270,000,000."

Hon. Mr. DUNNING: I suppose you cannot guarantee that everything is there, but only what has up to now been discovered.

Mr. COOPER: I think we know what stock we have.

Hon. Mr. DUNNING: I had in mind that little road south of London which we discovered last year.

Mr. COOPER: That was not a system company, Mr. Dunning.

Hon. Mr. DUNNING: I imagine there may be one or two others buried in the records of the old Grand Trunk, but they would not amount to very much.

Mr. COOPER: They are not active companies.

Hon. Mr. STEVENS: There is none of that held by the public?

Mr. COOPER: The first item on page 34, \$165,627,738, and the first item in the Canadian Northern group, \$100,000,600, held by the government; the other small stocks are set out as held by the public. They are not stocks of the Canadian National Railway company; they are stocks of companies included in the system—stocks held by the minority shareholders.

Hon. Mr. DUNNING: That \$100,000,600 of stock of the Canadian Northern is stock for which the government paid \$10,000,000?

Mr. COOPER: Yes, and the \$165,627,738 is stock of the former Grand Trunk Railway which the government did not pay for; it was stock which was declared of no value.

Mr. GEARY: It was the four classes of stock, three preferred and one common?

Mr. COOPER: Yes sir.

Mr. GEARY: Then these other small holdings, do they bring a return to the holder in any case?

Mr. COOPER: No, in no case do we pay a dividend on any of our constituent companies' outstanding stock.

Mr. GEARY: There is no advantage in getting that stock in, I suppose?

Mr. COOPER: It would help to clean up the situation if we did have them.

Mr. GEARY: They are holding out on you, are they?

Mr. COOPER: No, most of them I think have been lost. I think it would be very difficult to find out who the holders of them are, in a great many cases.

Mr. GEARY: For instance, the belt line railway, it is hard to find the road now, let alone the stock.

Mr. McLEAN (*Melfort*): It is not paying dividends, then?

Mr. GEARY: That would be, as you say, probably lost.

Mr. COOPER: It probably was, yes.

Mr. GEARY: Just as a matter of interest, how did that get into the Canadian National Railway? The Grand Trunk owned it, did it not?

Mr. COOPER: The Grand Trunk owned the majority of the stock of that company, and it would come into the system when the Grand Trunk was brought

into the system. But so long as there is a certain amount of par value of that stock outstanding on the records of the company, we are compelled to reflect it in our balance sheet.

Mr. GEARY: The Canadian National Railways were originally the Trans-continental?

Mr. COOPER: No, sir, the Canadian National Railway company is the successor by amalgamation to the Grand Trunk Railway Company of Canada, purely.

Mr. GEARY: So that these are all Grand Trunk holdings, really?

Mr. COOPER: Under the heading of Canadian National Railways. But the system includes the Canadian Northern, the Grand Trunk Pacific and the Canadian Government Railway.

Hon. Mr. STEVENS: Can you indicate what is held by other than the government?

Mr. COOPER: It is the difference between \$265,000,000 and \$270,000,000, approximately \$5,000,000 in par value.

Mr. GEARY: Practically all the items except the two you have named?

Mr. COOPER: That is what accounts for the difference, all except the two big items which I have mentioned.

Hon. Mr. STEVENS: The \$165,000,000 and the \$100,000,000?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And all the other is held by private individuals?

Mr. COOPER: That is correct, Mr. Stevens.

Hon. Mr. STEVENS: Who holds this \$3,849,000 of the Canadian Northern Quebec Railway Company?

Mr. COOPER: We have a foot note against that at the end of page 35:

\$5,144,600 Canadian Northern Quebec stock is held by the Northern Consolidated Holding Company. The Canadian Northern Railway owns 44,467 shares in that Company out of a total issue of 61,815. For the purpose of this statement the Holding Company is ignored and the proportion of the Canadian Northern Quebec Stock thus owned by the Canadian Northern Railway is shown as held by the latter Company.

So that this amount of \$3,849,000 is owned by the Northern Consolidated Holding Company. Who the shareholders of that company are, I do not know.

Hon. Mr. DUNNING: But the \$3,800,000 is what is held by the public in the Canadian Northern Quebec, outside of the holding company altogether?

Mr. GEARY: That is the proportion of the five millions that is represented by the forty-four thousand out of the sixty-one thousand?

Hon. Mr. STEVENS: That virtually belongs to the Canadian National, then?

Mr. COOPER: No, it is the proportion of the Canadian Northern Quebec stock which belongs to the minority holders of the Northern Consolidated Holding company.

Hon. Mr. STEVENS: That is, you own 44/61sts of the nine million?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: You have got it reversed, I am afraid. This \$3,849,000 represents what the Canadian National own, if the Holding company's stock were distributed?

Mr. GEARY: That is, as 44,000 is to 61,000 I think.

Hon. Mr. STEVENS: Yes, you have got it reversed, I should think. The holding company holds \$5,144,000 worth of stock.



Sir HENRY THORNTON: Forty-four sixty-firsts is a little over seventy per cent; and seventy per cent of \$5,144,000 is roughly \$3,800,000.

Hon. Mr. DUNNING: Is not the explanation, Mr. Cooper, that in addition to the Northern holdings of this stock there are some Canadian Northern holdings?

Mr. COOPER: I believe there is certain stock of the Canadian Northern Quebec itself which is held by the public.

Hon. Mr. DUNNING: There is \$5,700,000 held by the system.

Mr. COOPER: There may be some Canadian Northern Quebec stock itself held by the public.

Hon. Mr. DUNNING: They come around to see me once in a while and want to be paid for it, so that I am reasonably sure that there is.

Hon. Mr. STEVENS: It is not important, but I do not quite see it. I gather from Mr. Cooper's answer that the \$3,849,000 of the Canadian Northern Quebec is owned by parties other than the Canadian National Railways.

Mr. COOPER: Yes, that is right.

Hon. Mr. STEVENS: That does not seem to me to harmonize with the foot note. That is the point I do not see.

Mr. GEARY: You are missing that. The system holds \$5,700,000 of which the forty-four sixty-firsts is part.

Mr. COOPER: May I explain that again. There is \$5,144,600 Canadian Northern Quebec stock held by the Northern Consolidated Holding Company. The Canadian Northern have 44,467 shares out of the 61,815 shares of that \$5,000,000. There will be a certain amount then of Canadian Northern Quebec stock owned by the Northern Consolidated Holding Company; that amount plus the Canadian Northern Quebec stock which is held directly by others than the Canadian Northern and the Northern Holding Company, make up the \$3,849,200.

Hon. Mr. STEVENS: Yes, I see that now.

The CHAIRMAN: You mean of the minority shareholders?

Mr. COOPER: Yes.

Mr. McLEAN (*Melfort*): Where is the balance then of the three and one half millions of the Canadian Northern Quebec stock?

Mr. COOPER: The Canadian Northern proportion of the Northern Consolidated Holding Company holdings in Canadian Northern Quebec stock is included in this item of \$5,700,800. That is the next item against the \$3,800,000.

Mr. McLEAN (*Melfort*): Oh yes.

Mr. HENRY: Under Capital Stock the total is \$9,550,000?

Mr. COOPER: Yes.

Mr. HENRY: What is the difference between the amount which the Canadian National holds by virtue of the Northern Consolidated Holding Company and the amount which it holds apart from that?

Mr. COOPER: Well, that would just have to be worked out.

Hon. Mr. DUNNING: There must be a holding by the company itself in addition to the Consolidated Holding Company.

Hon. Mr. STEVENS: Exactly. That is where the difference lies.

Hon. Mr. DUNNING: That is not important.

Mr. COOPER: I will have that figured out and give you the answer later.

Hon. Mr. STEVENS: But it is not important, Mr. Chairman, I think.

The CHAIRMAN: Account No. 752.

Mr. COOPER: That is on page 15. The second item, "Stock Liability for Conversion," \$10,600.

Account 754, "Grants in Aid of Construction," \$16,730,086.07.

Hon. Mr. STEVENS: What does that represent?

Mr. COOPER: The principal item in that is \$15,142,633 which was paid by the Province of Upper Canada to the old Grand Trunk.

Mr. McLEAN (*Melfort*): You are still holding that as a liability?

Mr. COOPER: The liability is now held by the Dominion of Canada as successor to the provinces of Upper and Lower Canada and is junior to the common stock. By the award of the arbitration the common stock was held to be worthless.

Hon. Mr. DUNNING: That is a really classical explanation.

Hon. Mr. STEVENS: Why carry it along in the balance sheet in that form?

Mr. COOPER: We are hoping to get it out one of these days.

Sir HENRY THORNTON: That, Mr. Stevens, is just an example of a lot of items which are the result of the accumulations of the last fifty years; and it is one of the things which causes a chaotic condition, and is one of the reasons for the desired simplification of the whole financial structure in which all these old cats and dogs can be wiped out.

Hon. Mr. STEVENS: It seems to me that this is one of the kittens which might be drowned forthwith.

Sir HENRY THORNTON: When you start zoological drowning it brings us into all sorts of complications, and it would be better to have a little deluge one of these days.

Hon. Mr. STEVENS: After all it is carried here in a more or less ostentatious manner, because after all there are not many items on this list.

Mr. GEARY: Is this a Credit Valley, or Old Toronto Gray and Bruce?

Mr. COOPER: No, it was cash which was turned over to the Grand Trunk to aid in the construction of the Grand Trunk proper; not of the subsidiaries of the Grand Trunk.

Hon. Mr. STEVENS: There was no interest on it, I suppose.

Mr. COOPER: No, they were to receive dividends after the company got into a position to pay dividends on common stock. As far as the company is concerned there is that debt, and until the Government give up the security we must carry this in our balance sheet.

Hon. Mr. DUNNING: I think of all the securities which the government hold this is the poorest, because the arbitration ranked it after the stock which the arbitration held to be worthless.

Hon. Mr. STEVENS: I think the Deputy Minister should approach the Minister and suggest the wiping out of this thing.

Sir HENRY THORNTON: We will suggest the reconstruction of the financial structure of this road, and when that is done, if it is approved, all these will disappear. This is but one of the minor horrors.

The CHAIRMAN: Item 755.

Mr. COOPER: Account 755, Funded Debt unmatured, \$977,889,032.94.

Mr. JELLIFF: That seems to be a little less than last year. Did you pay off some item of matured debt?

Mr. COOPER: We retired Trust Notes \$6,041,400; Canadian Northern 5 per cent Income Charge Debenture Stock \$24,137,846.08; and Miscellaneous Items of \$2,088,714.10. Total Retirements \$32,267,960. Against that we had new issues, 4½ per cent forty year guaranteed Gold Bonds \$26,344,000; State of Michigan, Woodward Avenue, \$2,441,256.60.



Mr. JELLIFF: On the whole you have reduced the funded debt.

Mr. COOPER: By \$3,492,703.

Hon. Mr. DUNNING: That was due to buying Canadian Northern Bonds at less than their face value?

Mr. COOPER: Substantially, yes.

Hon. Mr. STEVENS: On page 28, might I ask Mr. Cooper or Sir Henry this question. On February 1st 1929, there are 4 per cent Sifton Branch Bonds, Canadian Northern, guaranteed by the province of Manitoba, to the amount of \$1,137,340; and another item of 4 per cent Manitoba and Southeastern Bonds, Canadian Northern, maturing February 1st, 1929, amounting to \$510,513.34. Were these two retired?

Mr. COOPER: Yes Sir.

Hon. Mr. STEVENS: By the Canadian National system?

Mr. COOPER: Yes Sir.

Hon. Mr. STEVENS: And the guarantee of the province of Manitoba released accordingly?

Mr. COOPER: I should think so.

Hon. Mr. STEVENS: How do you treat these provincial guarantees, Sir Henry?

Sir HENRY THORNTON: In what respect?

Hon. Mr. STEVENS: The provincial guarantees on these Bonds, are they treated as being wiped out?

Sir HENRY THORNTON: When the issue matures, unquestionably the guarantee disappears with it.

Hon. Mr. STEVENS: And do you look upon the Provincial Guarantee still in force while the Bond is in force?

Sir HENRY THORNTON: Technically we must. We have never had any question of default on them, and the question has never been raised, to my knowledge, as to what extent the guarantor would be called upon to make good on his guarantee.

Hon. Mr. DUNNING: There was once. I was on the other end of the deal, in connection with one case in which default was permitted to occur.

Sir HENRY THORNTON: That must have been some time ago.

Hon. Mr. DUNNING: Just about the time you came, Sir. This would probably illustrate what would happen in all such cases. There was a time when, with respect to the Grand Trunk Pacific Branch Line Bonds guaranteed by the province of Alberta and Saskatchewan, the interest payments were not paid by the Dominion on the due date. Speaking for Saskatchewan, as I did at that time, and I think Alberta did the same, the province immediately honoured its guarantee and met the interest. Under the terms of the Trust Deed and the mortgage, however, the province then acquired by that payment certain rights with respect to the property, rights which became operative—I am saying this subject to correction—after the payment of, I think, three or four interest payments; at any rate two years was the period involved. And the Dominion allowed the provinces to pay three out of the four payments which would have given the provinces their rights under the mortgage, and then paid the fourth one; and they have allowed default to occur the second time. During that period the matter was under negotiation between the two Governments, and finally the Railway decided that it desired to retain this branch line; and the only means of retaining them was by honouring the obligations; otherwise the provinces would have taken possession. I cannot speak for all of them, but in respect of that class of case, that did apply.

Hon. Mr. STEVENS: Speaking of the inter-incorporation policy, or of the government represented by the provinces in regard to all these guaranteed

bonds of Alberta, Saskatchewan, and Manitoba, is it tacitly agreed that the provincial guarantee shall be wiped out now that the National Railway has taken possession?

Mr. GEARY: The bondholders would have something to say to that.

Hon. Mr. STEVENS: As between the provincial governments, and the federal government is there any understanding?

Hon. Mr. DUNNING: No, there is no understanding. I can only conceive of the question arising if Sir Henry Thornton should report to me, as Minister, that a certain line is not worth to the system what it is costing the system. In that case we would have to face the question. In the meantime, however, I should say that Sir Henry would say we want to retain all the lines we have.

Sir HENRY THORNTON: I do not know any line in which such a condition would arise as has been suggested.

Hon. Mr. DUNNING: So long as the bonds are running the provision of the Trust Deed must maintain. In fact when we want to sell a little bit of property held under the Trust Deed, we have to go through a lot of forms. We must maintain the legal form as long as the bonds are in existence. The retirements this year, for instance, were for the very good reason that they wanted to retain ownership.

Mr. GEARY: Under all the circumstances, I think you would have a good deal of difficulty in relinquishing any of them.

Hon. Mr. DUNNING: Yes, it would be a very tangled situation.

Hon. Mr. STEVENS: In connection with the item on page 28, about half-way down, of \$26,000,000, 4½ per cent forty year guaranteed Gold Bonds. In the statement previously, in Sir Henry's report, he says that no trust agreement was entered into with regard to this issue. Is there any significance in that, or what was the form of the issue of those bonds? Why was there no trust agreement?

Mr. HENRY: That is a government guarantee. It is not a mortgage, and therefore each bond includes on it all the terms.

Hon. Mr. STEVENS: Individually guaranteed by the government?

Mr. HENRY: Individually guaranteed; and there was no Trust Deed necessary.

Hon. Mr. STEVENS: I think perhaps right here I might ask this. I ran over this list and I noticed that within the present fiscal year, that is in February, 1930, there are \$19,000,000 falling due, maturing, and Equipment Bonds of about \$3,000,000; that would be about \$21,000,000 by February next. What provision is there made to meet that, or how do you propose to retire those?

Sir HENRY THORNTON: That is next year. Mr. Stevens.

Hon. Mr. STEVENS: That is your fiscal year ends on the 31st December?

Sir HENRY THORNTON: Our fiscal year ends December 31st.

Hon. Mr. STEVENS: Then I might mention that next year, taking the whole calendar year, you have some \$41,000,000 coming due.

Mr. HENRY: The ordinary procedure there is to float issues when these retirements come due; or to temporarily take care of them by temporary financing, if financial conditions are not satisfactory.

Mr. JELLIFF: How much will you have to take care of this year?

Hon. Mr. STEVENS: There are two small ones.

Sir HENRY THORNTON: There are two items amounting to \$6,000,000 odd and \$3,514,000.

Hon. Mr. STEVENS: There are quite a few Equipment Bonds, serial.

Sir HENRY THORNTON: There are about ten, I should think, Equipment Trusts.



Hon. Mr. STEVENS: Where is that \$6,000,000 that you refer to?

Sir HENRY THORNTON: Would you like to have the names read out?

Hon. Mr. STEVENS: Is it in the Equipment Bonds?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: I see there are a number of Equipment Bonds mentioned here.

Sir HENRY THORNTON: Yes, that is it.

Hon. Mr. STEVENS: But you mention \$6,000,000, and I just wondered where that came in.

Sir HENRY THORNTON: That is some of them.

Mr. COOPER: Equipment Trust Bonds, series C, \$375,000; series D, \$750,000; series E, \$1,000,000; series F, \$800,000—

Hon. Mr. STEVENS: Where is that?

Mr. COOPER: Series E is one of the unguaranteed issues.

Sir HENRY THORNTON: Mr. Stevens has only the annual report before him, and he wants to know where that appears in the annual report.

Hon. Mr. STEVENS: I went over it pretty carefully and I do not find anything like that reflected here. All we have in the Equipment Bonds here are series B, \$375,000; series C, \$375,000; series D, \$750,000.

Mr. COOPER: In series E, there is \$14,000,000 outstanding.

Hon. Mr. STEVENS: That is for 1935?

Mr. COOPER: There is an explanation to be made. The total issue falls due May 1st, 1935, but we pay into a sinking fund each year \$1,000,000, so that the amount of \$6,000,000 includes that \$1,000,000 and series F, \$800,000. Series G, which is on the opposite side, is a guaranteed Equipment Trust.

Hon. Mr. STEVENS: That is 1938, and then there is a portion of that maturing?

Mr. COOPER: It matures serially up to 1938 by annual instalments of \$1,500,000.

Hon. Mr. STEVENS: You will understand the reason why we cannot ascertain from this, because it does not indicate how much matures, and I was taking only the maturing dates appearing on the statement.

Mr. COOPER: We try to show as well as we can what is a serial issue, and there is an annual instalment payable each year.

Hon. Mr. STEVENS: Then your total maturing is what?

Mr. COOPER: Of principle, \$6,316,400, including two items which go into the sinking fund.

Mr. GEARY: One of them I notice is 7 per cent.

Mr. JELLIFF: Where is series F?

Mr. GEARY: F, is about the fourth one down, on page 29, Mr. Cooper, your series A, I see there is no principle outstanding, but there is interest accrued for 1927 and 1928. How is that?

Mr. COOPER: It matured July 1, 1928, so that there would be the first six months' interest charged to the 1928 account; but at December 31, 1928, the Bonds had been discharged; and as this is a statement of condition at December 31, 1928, there was no principle outstanding.

Mr. GEARY: But there are interest outstanding?

Mr. COOPER: No, that is not outstanding; this is interest charged, which has accrued during the year.

Mr. JELLIFF: This is the total which we have to meet this year, \$6,000,000 odd?

Mr. COOPER: Of the Equipment Trusts.

Mr. GEARY: There are none of the 7 per cent on the market, are there?

Sir HENRY THORNTON: Not at a purchasable price, probably.

The CHAIRMAN: Any other question? Dominion of Canada Accounts.

Mr. COOPER: Dominion of Canada Account, \$1,290,216,481.91.

Mr. GEARY: You have shown your interest simply as interest, not compounded?

Mr. COOPER: Yes.

Mr. GEARY: Is that the usual practice in showing an indebtedness on a railway? It is not with a bank.

Mr. COOPER: I should say that the situation between the Dominion Government and the Canadian National Railways has no parallel. I doubt whether the charge of simple interest on such an amount of debt should be charged. That is to say, it is not a question of whether we should compound interest; it is a question whether the simple interest charged is not excessive.

Mr. GEARY: Or the principle, for that matter.

Mr. COOPER: And the principle.

Hon. Mr. DUNNING: It is a question, as Mr. Cooper says, whether or not simple interest is properly charged.

Mr. COOPER: It is something like a shareholder charging interest against a company on his capital investment.

Mr. GEARY: It has to be shown somewhere I should say.

Hon. Mr. DUNNING: At present, yes.

Hon. Mr. STEVENS: On that question of the financial reconstruction, is that seriously under way?

Hon. Mr. DUNNING: It is seriously under way. It has been very seriously under way ever since I have had anything to do with the railroad.

Hon. Mr. STEVENS: When do you expect to be in a position to disclose anything.

Sir HENRY THORNTON: That is hard to say. As I said yesterday the complicating factor which has arisen did change the prospects for this session.. And until that is disposed of, you can readily understand that if anything arose in connection with Grand Trunk Stocks, particularly having regard to the contention made by the holders of them, it would simply change our whole view of the situation. We are very anxious to get it completed, and I assure you we will have it ready as soon as it can be done.

Hon. Mr. STEVENS: Is there any likelihood of having it for next session?

Hon. Mr. DUNNING: I will be very disappointed if it is not, and I think Sir Henry will be, too.

Sir HENRY THORNTON: We have completed all our work on the railway side, and I should be very disappointed and considerably amazed if it did not come up next session. I am only speaking from what I suspect to be the situation. The Minister is the only one who can speak with authority as to what will happen next session.. That is beyond my sphere of political activity.

Hon. Mr. DUNNING: The raising of this question has a very serious bearing on the whole matter.

Mr. GEARY: Mr. Cooper, will you take up your account 755, "Funded Debt unmatured" in the hands of the public, \$977,000,000. You have to pay interest on that right along?

Mr. COOPER: Yes.

Mr. GEARY: Then the Dominion of Canada account, "Funded Debt unmatured"—you will pay no interest on that to anybody?



Mr. COOPER: No. There is included \$33,048,000 of Grand Trunk Pacific 3 per cent bonds which are held by the Dominion of Canada, we accrue interest on that, but do not pay it over in cash.

Mr. GEARY: Then these loans are, as we understand, and the appropriation account of the Canadian Government railways, that old deficit on the Inter-colonial?

Mr. COOPER: Not the deficit so much as the capital expenditures of the entire Canadian Government railway.

Mr. GEARY: Where would the deficits be?

Mr. COOPER: They were absorbed, I suppose, in the Consolidated Revenue account.

Mr. GEARY: But it must be charged to you—

Mr. COOPER: Not up to the time when we took over the Canadian Government railway for operation. From that time they are included, if we have borrowed against them.

Mr. GEARY: The government never made a claim for them.

Mr. COOPER: For the accumulated deficits up to 1923? No sir.

Mr. GEARY: I think there were \$420,000,000 written off in one year. They were carried as active assets at one time.

Hon. Mr. DUNNING: Yes, and I think in 1919 they went over as non-active assets.

Hon. Mr. STEVENS: Sir Henry Drayton carried them over as non-active assets.

Mr. COOPER: Practically the entire amount of \$1,290,000,000 is in the non-active assets.

Hon. Mr. DUNNING: As a matter of fact, if to-day the government decided to write off completely from its books the whole of this \$1,290,000,000, very little of it would affect the net debt, because it stands as a non-active asset.

Mr. McLEAN (*Melfort*): If you wipe this off, you would increase the net debt.

Hon. Mr. DUNNING: Not all of it, but nearly all of it.

Hon. Mr. STEVENS: A substantial part of this is now classified as a non-active asset.

Mr. McLEAN (*Melfort*): Supposing something happened, by which the railway discovered a gold mine, and value was put into that \$1,290,000,000; the net debt would not be reduced by anything like that.

Hon. Mr. STEVENS: Yes, it certainly would.

Hon. Mr. DUNNING: To the extent that it was transferred from a non-active to an active asset.

Sir HENRY THORNTON: Incidentally the government is threatened with that very gold mine.

Mr. McLEAN (*Melfort*): If this is written off the capitalization, it becomes added to the net debt, whereas at the same moment if value is put into it, it is deducted from the net debt.

Hon. Mr. STEVENS: It would give the company known as the Dominion of Canada more standing, better assets and would thus reduce your debt, but I hesitate to anticipate a gold mine.

Mr. BELL (*St. Antoine*): Has there been any refinancing during the past year?

Mr. COOPER: We retired debts amounting to \$32,267,960, of which \$6,041,000 was equipment trust notes, \$24,137,000 was Canadian Northern 5 per cents, and \$2,000,000 was miscellaneous.

Hon. Mr. STEVENS: Mr. Chairman, I think while we are discussing in a rather desultory way the question of financing, I would like to ask a few questions of Sir Henry in an endeavour to get a picture which will reflect the situation more clearly from a financial standpoint. If I might put my questions without interruption—I do not want to absorb too much time—I would like to follow the series of questions right through, if Sir Henry will permit it. I started it the other day, but we got off into side pastures and arrived nowhere. Now, Sir Henry, last year Parliament appropriated on these estimates \$39,000,000. May I ask if that \$39,000,000 which was appropriated was spent for various items of cost, whether refinancing or otherwise, for the year 1928?

Sir HENRY THORNTON: In other words, you would like to know how that \$39,000,000 was disbursed in 1928.

Hon. Mr. STEVENS: Exactly.

Mr. COOPER: Against that \$39,000,000 appropriated, our total expenditure under the budget was \$33,455,445.20.

Sir HENRY THORNTON: Mr. Stevens wants the details of that \$39,000,000. What did we do with that in 1928?

Hon. Mr. DUNNING: It is set down in the estimates and it would probably save time if the statement could be included in the record.



## CANADIAN NATIONAL RAILWAYS

ESTIMATED FINANCIAL REQUIREMENTS AND RESOURCES APPLICABLE THERETO, AS BUDGETED FOR 1928 COMPARED WITH ACTUAL FINANCIAL REQUIREMENTS AND RESOURCES APPLICABLE THERETO

	Estimated Amount	Actual Amount	Difference Over in Roman Under in Italics
Interest on Funded and Other Debt.....	\$40,564,010 29	\$38,293,444 62	\$2,270,585 67
Grand Trunk Pacific Guaranteed Interest.....	1,108,080 00	1,108,080 00	
Dividend on G.T.R. 4% Guaranteed Stock.....	2,433,333 33	2,433,333 33	
Sinking Fund Payments.....	1,012,425 88	984,345 61	28,080 27
Equipment Principal Payments.....	7,841,400 00	7,841,400 00	
Retirements on Capital Obligations.....	780,929 72	538,418 05	242,511 67
Total Financial Requirements.....	\$53,740,179 22	\$51,199,021 61	\$ 2,541,157 61
Less: Resources (Ex. Eastern Lines).....	\$41,814,919 22	\$49,319,343 87	\$ 7,504,424 65
Deficit on Eastern Lines (Ex. Interest on H. & S.W. First Mortgage Bonds—\$155,645.00).....	6,192,999 50	6,196,239 26	3,239 76
Net Financial Requirements.....	\$18,118,259 50	\$ 8,075,917 00	\$10,042,342 50
General Additions and Betterments.....	25,685,385 00	23,683,912 46	2,001,472 54
New Equipment Trust "K"—\$3,000,000.00.....	1,000,000 00	3,902,508 19	2,902,508 19
New Equipment Trust "L"—Funds held awaiting delivery of equipment.....	.....	.....	2,097,491 81
Discount on Securities to be Issued.....	545,000 00	2,047,500 00	1,502,500 00
	\$45,348,644 50	\$39,807,329 46	\$ 5,541,315 04
Less: Financial Requirements of Eastern Lines to be provided for in the Estimates of the Department of Railways and Canals as follows:—	\$ 1,930,000 00	\$ 2,151,527 75	\$ 221,527 75
Maritime Freight Rates Act 1927.....	4,418,644 50	4,200,356 51	218,287 99
Deficits in Net Income due to causes other than the operation of the Maritime Freight Rates Act 1927..	.....	.....	3,239 76
Total.....	\$39,000,000 00	\$33,455,445 20	\$ 5,544,564 80

Hon. Mr. STEVENS: Of the \$33,000,000 which you spent—that is covered by the \$35,000,000 issue shown on page 7.

Mr. COOPER: Part of it was financed by the issue of \$35,000,000.

Hon. Mr. STEVENS: That is, \$21,500,000.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And the balance is financed by borrowing from the bank the \$40,000,000.

Mr. COOPER: That is correct.

Hon. Mr. STEVENS: May this other statement also be put in the record?

The CHAIRMAN: Yes.

\$35,000,000 4½% Bonds DATED DECEMBER 1st, 1928

	Par value	Discount and Interest	Net proceeds placed on deposit	Released or to be Released	
				Branch Lines and Toronto Terminals	1928 Budget
Sold Dec. 20-21, 1928.....	\$26,334,000 00				
Discount.....		1,540,539 00			
Interest to date on sale.....		62,885 84			
			24,856,346 84		
Releases to Dec. 31, 1928.....			8,072,750 88	2,309,280 17	5,763,470 71
Position Dec. 31, 1928.....	\$26,334,000 00	\$ 1,477,653,16	\$16,783,595 96	\$ 2,309,280 17	\$ 5,763,470 71
Sold Jan. 3, 1929.....	8,666,000 00				
Discount.....		506,961 00			
Interest to date of sale.....		35,257 53			
			8,194,296 53		
Interest on deposits.....		181,477 09	181,477 09		
Releases since Jan. 1, 1929.....			17,856,759 95	3,986,588 87	13,870,171 08
Position March 31, 1929.....	\$35,000,000 00	\$ 1,767,879 54	\$ 7,302,609 63	\$ 6,295,869 04	\$19,633,641 79
Net proceeds to be drawn down.....			7,302,609 63	7,204,130 96	98,478 67
Discount and interest applied against 1928 Budget.....		1,767,879 54			1,767,879 54
Final position.....	\$35,000,000 00			\$13,500,000 00	\$21,500,000 00

\$40,000,000 SHORT TERM NOTES DATED OCTOBER 15th, 1928

	Total Issue	1927 Budget	Can. Nor. Income Charge Debenture Stock	Branch Lines and Toronto Terminals	1928 Budget
Position at Dec. 31, 1928 and at March 31, 1929.....	\$40,000,000 00	5,900,000 00	22,748,109 60		11,351,890 40
Both Issues Combined....	\$75,000,000 00	5,900,000 00	22,748,109 60	13,500,000 00	32,851,890 40

Hon. Mr. STEVENS: Now in regard to the \$40,000,000 referred to on page 8 of this statement: I understand part of that is borrowed from the bank to cover various items for which expenditures have already been made in 1928.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: In other words, we owe—that is, the company owes the bank \$40,000,000 on December 31, 1928?

Mr. COOPER: Yes. And in addition to that, we have \$3,500,000 for the Manitoba Northern.



Hon. Mr. STEVENS: Then I understand from the statement of Sir Henry's that it is intended during the present year to arrange long term financing in which the moneys provided by the bank as above will be repaid.

Sir HENRY THORNTON: You understand why that temporary financing was done? Because of the state of the money market.

Hon. Mr. STEVENS: Quite so. Now, included in this item of \$40,000,000 was there any carryover from the year before other than the \$5,900,000 shown on page 8?

Mr. COOPER: No.

Hon. Mr. STEVENS: That was all for the budget of 1928, plus this item of refunding.

Mr. COOPER: And plus the \$5,900,000 for the 1927 budget.

Hon. Mr. STEVENS: Now, in 1929-30, according to the Minister's budget, you require \$53,750,000.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: And also according to the statement, you are providing \$50,000,000 for the Montreal terminal, of which you will require \$10,000,000 this year.

Sir HENRY THORNTON: We would not be able to spend \$10,000,000 this year.

Hon. Mr. DUNNING: The bill will provide that not more than \$10,000,000 can be spent in any one year but it is not anticipated that \$10,000,000 will be spent this year.

Hon. Mr. STEVENS: I am trying to get at the requirements. I understood the other day that \$10,000,000 would be required this year.

Sir HENRY THORNTON: We could not spend \$10,000,000 this year. I am perfectly certain of that. The bill, as the Minister says, will provide for an amount not to exceed \$10,000,000 per year, but \$10,000,000 cannot be spent this year. I wish it were possible.

Hon. Mr. STEVENS: In addition to that, I think you said there were equipment bonds amounting to \$6,000,000.

Mr. COOPER: They are included in the \$53,000,000.

Hon. Mr. STEVENS: Allowing for \$10,000,000 for Montreal, it make a total of \$103,750,000 to be provided for this year, and striking off the \$3,000,000—

Hon. Mr. DUNNING: You have still forgotten one item to make the picture complete. That is the item of branch lines.

Sir HENRY THORNTON: I can tell you what our total requirements are, item by item.

Hon. Mr. STEVENS: Then let us have them.

Sir HENRY THORNTON: The Edmonton, Dunvegan and British Columbia Railway \$2,500,000; Quebec, Montreal and Southern, \$6,000,000; Inverness Railway and Coal Company, \$375,000; Quebec, Oriental and Atlantic, Quebec and Western Railway, \$3,500,000; The Kent Northern Railway, \$60,000; 1927-30 branch line program, \$1,500,000; new branch lines now before Parliament approximately \$1,500,000; 1929 budget, \$53,750,000; Manitoba Northern Railway, \$7,000,000; loan account, Central Vermont bonds, \$8,609,000; temporary borrowings from bank, \$40,000,000; new equipment, \$18,000,000; all of which make a total of \$142,794,000.

Hon. Mr. STEVENS: Does that include the interest to the public?

Sir HENRY THORNTON: No, that includes no interest. We pay that out of our resources.

Hon. Mr. STEVENS: What is the interest to the public?

Mr. COOPER: As Sir Henry stated the interest comes out of our operations.

Hon. Mr. STEVENS: I am getting at the total obligations.

Sir HENRY THORNTON: That is the capital account.

Hon. Mr. STEVENS: What will your interest to the public be?

Sir HENRY THORNTON: Our total interest on securities in the hands of the public is something like \$42,000,000.

Mr. COOPER: It is about \$45,500,000 in 1929. We are estimating that amount.

Hon. Mr. STEVENS: That means \$186,000,000 which you have to finance in 1929—

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: Wait just a moment—

Sir HENRY THORNTON: Pardon me.

Hon. Mr. STEVENS: —and to meet that you will have your anticipated surplus earnings on operation, which this year amounted to \$43,000,000 net, after taking off the Eastern Lines.

Sir HENRY THORNTON: There is nothing to be added to the figures I have given.

Hon. Mr. STEVENS: You mean that interest is included in the \$53,000,000.

Hon. Mr. DUNNING: No, the resources are deducted before the \$53,000,000 is arrived at.

Sir HENRY THORNTON: We do not capitalize the interest.

Hon. Mr. STEVENS: We only want to know that the interest is provided for. I assumed it was, but Sir Henry said it was not.

Sir HENRY THORNTON: It is not provided for in the budget. The figure I gave you represents the capital requirements. The interest will come out of our resources.

Hon. Mr. STEVENS: Then if we ignore the resources as well as the interest, it will leave \$141,000,000.

Sir HENRY THORNTON: And from that I have subtracted an amount for the Canadian National Steamships and the Merchant Marine.

Hon. Mr. STEVENS: How do you propose to provide for that this year?

Sir HENRY THORNTON: That will be financed in the course of the year as and when circumstances permit advantageous financing.

Hon. Mr. STEVENS: The reason I am querying on this very closely is that I consider this to be the most serious question that we as the representatives of the shareholders, as it were, have to deal with. You are carrying over from last year \$40,000,000, and, after all, that is a handicap to financing, is it not?

Sir HENRY THORNTON: I do not think so.

Hon. Mr. STEVENS: Possibly not, but I would think it would be. It is a very, very large sum to finance for the National railway in one year.

Sir HENRY THORNTON: No, not considering the magnitude of the company's operations.

Hon. Mr. STEVENS: Is it a part of the policy of the road to finance a substantial portion of its requirements in this manner mentioned here, by borrowing from the bank up to \$40,000,000 or \$50,000,000?

Sir HENRY THORNTON: It is the policy of the company to within each year finance its capital requirements for that year, but should certain circumstances be such that advantageous borrowings cannot be made during that year, it is much better to temporarily finance at perhaps a somewhat higher rate of interest for a short period than to finance for a long period at a high rate of interest. In other words, we arrange for our financial requirements each year



if conditions permit that to be done with advantage. If we cannot, we do what any other business enterprise would do—and many railways do—we issue some form of short term notes until the money market permits us to finance advantageously.

Hon. Mr. STEVENS: That is perfectly sound up to a certain point. Now, the question arises naturally when do we reach the point where the margin of safety is exhausted? I submit that with \$40,000,000 brought forward from last year you are fairly well absorbing the degree to which you are warranted in going in temporary financing.

Sir HENRY THORNTON: No. None of us in any business enterprise would want to do more temporary financing that circumstances require, but if you have to do it, you have to do it; that is all there is to it.

Hon. Mr. STEVENS: I suppose that is axiomatic, but what rate of interest are you paying on the \$40,000,000?

Sir HENRY THORNTON: Five and a quarter, which considering the general condition of the money market is a very good rate from the company's point of view.

Hon. Mr. STEVENS: Now, having in mind the heavy exports of gold from Canada to New York during the last couple of years and the fact that the Canadian dollar is 25/32nds below par, is there any likelihood of financing on the New York market this year?

Sir HENRY THORNTON: Yes, but to estimate what the money market is going to be is a good deal like estimating what is going to happen to our crops each year. It is difficult to estimate that, and we can only seek the best opinion possible. Our opinion is that before the first of the year we shall have cleared up this financial situation. Your estimate is just as good as mine.

Hon. Mr. STEVENS: You would not care to intimate to the Committee the plans and expectations you have, or the method by which you expect to finance this?

Sir HENRY THORNTON: The moment the money market eases and the banking world feels that we can finance advantageously, we shall immediately do so.

Mr. HENRY: Mr. Stevens, if you will refer to page 7 of the previous annual report, you will see that in the year \$65,000,000 of financing was taken care of. That is \$65,000,000 was issued; that was an accumulation.

Hon. Mr. STEVENS: That was a very good year to finance. There was no difficulty in making an issue then at all. The significance of all this, I think, and it is only fair to frankly face it, is that with \$141,000,000 to finance and with obviously the money market not nearly as good as it has been in recent years, the government, parliament, or the country, must estimate whether they are cutting their suit to fit the cloth, or whether we are overdoing the thing.

Sir HENRY THORNTON: A good many of these things were things which from many points of view were unavoidable. A large percentage of the items which are represented on this list do not represent money which will bring no return. As a matter of fact it is money which will result, in the last analysis, in increasing the net earnings. What I mean to say is this, that there is no objection to borrowing any amount of money, a billion dollars if you like, at 5 per cent or 6 per cent if the return to the borrower on the use of that money brings him net 10 per cent, say. Under those circumstances, the more money he borrows the better. That is what happens in every business organization. If you can borrow money at the current rate of interest and absorb that money into your enterprise, and through that enterprise make an amount in excess of the rate of interest, it is good business to do so.



Hon. Mr. STEVENS: On the other hand, of course, there always comes a time when it is incumbent upon the head of a business to determine whether the capital expansion is warranted in view of the return and of the actual condition of the company.

Sir HENRY THORNTON: That is quite right, Mr. Stevens, quite right.

Hon. Mr. STEVENS: I am just bringing this point out now for the purpose of the Committee this year being thoroughly advised of what is being recommended to parliament and being authorized and approved of as far as this Committee is concerned.

Sir HENRY THORNTON: I would very much prefer if the money market were such as that we could proceed with our financing as in years gone by. There is no good in saying that we like this situation, because we do not like it; but it is the best, we feel, that can be done, having regard to all the circumstances. And it causes the Financial Officers of the Company and myself no great anxiety. Certainly, if anybody's head is at stake, it is ours.

Hon. Mr. STEVENS: I hope you will not think, Sir Henry, that I am doing this in any spirit of captious criticism of yourself, because I think you have had a terrific load to carry.

Sir HENRY THORNTON: On the contrary, Mr. Stevens, I am almost anxious to have the fullest investigation by the Committee, and I am always willing to expose everything fully and frankly.

Hon. Mr. STEVENS: For instance, recently we have passed a number of bills, which are generally known, as branch line construction, and it is always a very difficult thing to pick out any one thing and criticize it. I am not doing that; but I do say that parliament has been pretty generous in passing these Bills and it might be that the management, in view of the situation, should look them over very carefully.

Sir HENRY THORNTON: We do, and as a matter of fact we reject a great many more proposals than are accepted.

Hon. Mr. STEVENS: I think the Committees of Parliament, both the Railway Committee and this Committee, are reposing more confidence in your judgment and in the judgment of your very excellent staff, and I think the Minister will agree with this, that this year virtually everything which was suggested as coming from yourself and your staff was accepted without question. And Parliament having adopted that attitude, it simply throws back upon the management all the more responsibility.

Sir HENRY THORNTON: I quite agree with that, and I take it that the generosity with which Parliament has treated us in recent years has been due to the steady improvement in the company. That is, the money which has been spent has been wisely spent, and has brought a substantial return. There is not any doubt that in connection with all financial operations, not only the increase in our Capital Debt but in our expenses, it is the responsibility of the officers of the company to proceed with the utmost caution. As a matter of fact, within the last two or three years, we have had very satisfactory results; but that is all the more reason that we should not establish in our own minds as officers, an atmosphere of extravagance. That is to say, money which comes easily we must not spend easily. And our responsibility is to make no recommendation to the Minister unless we feel that it is clearly to the advantage of the company to do it. And, speaking generally, I think that our physiological atmosphere, if one can use such a term, should be one of extreme caution and vigilance in expenditures to counteract this very atmosphere of I shall not call it extravagance but of spending, which always afflicts every enterprise which constantly has mounting net earnings.



Hon. Mr. STEVENS: May I now ask if I may continue—This Inter-State Commission application by the Grand Trunk Western is, I understand, before the Inter-State Commerce Commission but not approved?

Sir HENRY THORNTON: Not yet, no.

Hon. Mr. STEVENS: This is for the amalgamation of a number of companies.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: It is eleven, I believe.

Sir HENRY THORNTON: Thirteen, I think.

Hon. Mr. STEVENS: Thirteen different companies, and you have a scheme of re-financing, have you not?

Sir HENRY THORNTON: Well, if that is approved by the Inter-state Commerce Commission, then we have a plan for re-financing that whole situation.

Hon. Mr. STEVENS: Will that come before parliament or will it not?

Sir HENRY THORNTON: Can you answer that, Mr. Minister?

Hon. Mr. DUNNING: If parliament's sanction is necessary, it will have to be secured, but in any event, parliament will be fully apprised. It is controlled by United States law, you know.

Hon. Mr. STEVENS: I understand that. But the sum which will be required to re-finance?

Sir HENRY THORNTON: I can say this, that the re-financing of the Grand Trunk Western will not require any new money. It contemplates capitalizing the very large improvement in the net position in that property. As the thing stands to-day, it is quite impossible to take advantage of the improved position of the Grand Trunk Western; and one of the objects which we seek in this consolidation is that particular thing.

Hon. Mr. STEVENS: I quite appreciate that what you are doing is issuing new stock for old stock; in other words it will be largely an exchange of securities, I should say.

Sir HENRY THORNTON: I will ask this not to be put in the record, but be considered as confidential by this Committee.

The CHAIRMAN: The reporter will not put into the record what Sir Henry is about to tell us.

Certain information having been given to members of the Committee,

Hon. Mr. STEVENS: May I ask, Sir Henry, regarding Portland. What are you doing in Portland,—anything in particular?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: The Central Vermont is not included in this American consolidation at all?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: What is the situation regarding the Central Vermont?

Sir HENRY THORNTON: The general situation with respect to the Central Vermont is this: as you are aware, about two years ago the Central Vermont was visited by a serious flood, which not only did great damage to the Central Vermont Railway, but to the back part of the State through which the Railway ran. And in rehabilitating it we thought it better to put the road into Receivership. The reason for that is perfectly obvious. That rehabilitation has cost us roughly \$5,000,000. The laws of Vermont were extremely rigorous with respect to foreign companies owning the stock of Railways and doing business in Vermont. As a result of this expenditure, we succeeded in having the State Legislature alter the laws so as to improve our position as the pro-

prietary company of the Central Vermont. The Receivership will probably be lifted this autumn; and when that is done, notwithstanding the additional expenditure of \$5,000,000, that property which was formerly an annual loss to the Canadian National Railways, because there was a deficit on the bond interest which we had to make up, will become a profitable company.

In other words, we shall earn more than a sufficient amount to pay the interest on the bonds; and therefore, curiously enough, what we thought two years ago was a great disaster, so far as the financial position of the Central Vermont is concerned, has turned out to be a blessing.

Hon. Mr. STEVENS: What is our total obligation there, in regard to the Central Vermont?

Mr. GEARY: What did you shake out in the way of stockholders and creditors in your Receivership?

Sir HENRY THORNTON: I do not remember the exact amount, but a very large interest was shaken out.

Mr. COOPER: Our total investment in Central Vermont is \$33,788,798.75.

Mr. GEARY: Including the \$5,000,000 which Sir Henry mentioned a few moments ago?

Mr. COOPER: No.

Mr. GEARY: Will you give us the total amount under the Receiver's certificates?

Mr. COOPER: I think it is about \$5,000,000.

Mr. GEARY: I want our total obligation.

Mr. COOPER: It will be about \$38,000,000.

Mr. McLEAN (*Melfort*): How many miles is in that line?

Sir HENRY THORNTON: 411 miles.

Hon. Mr. STEVENS: I think that is all I want to ask on that, and I thank you very much.

Mr. BELL (*St. Antoine*): What is the estimate for the Central Vermont this year?

Mr. COOPER: About \$5,000,000.

Mr. JELLIFF: Everything has been pretty well brought out. I was simply going to say that the bill of fare which we have been discussing seems to be a pretty large one, as far as the railway is concerned; but at the same time I feel that these appropriations are not to pay for a dead horse. We are really getting something out of the major operations in the program for this year, in our branch line program.

Sir HENRY THORNTON: Unfortunately, a railway is something which is never finished. It is worse than a racing stable, and constantly requires more money to keep it up. But, if the expenditures are wisely made you only increase your net.

Mr. GEARY: I want to straighten up something in my own mind. The 1928 has carried over how much?

Mr. COOPER: Forty-three and one-half millions.

Mr. GEARY: And the figures making up the \$141,000,000 are comprised—are the branch lines included in that?

Sir HENRY THORNTON: Yes, that includes everything.

Mr. GEARY: I want the three items which make up the \$141,000,000.

Hon. Mr. STEVENS: He put in a complete statement for that.

Sir HENRY THORNTON: I do not know that I have quite got your question.



Mr. GEARY: I want to get the general items of the \$141,000,000. The point is that \$141,000,000 of new financing is required this year.

Mr. COOPER: About \$141,000,000.

Hon. Mr. DUNNING: Including about \$10,000,000 for Montreal.

Mr. COOPER: No.

Mr. GEARY: \$40,000,000 odd of that is carry forward?

Mr. COOPER: Yes.

Mr. GEARY: So that \$100,000,000 for this year is new financing?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Is any of that refunding?

Sir HENRY THORNTON: Oh yes.

Mr. GEARY: I do not think that last year you required very much money, and I do not think you require very much money this year.

Sir HENRY THORNTON: About \$10,000,000 is refunding.

Mr. COOPER: I think that we would have to go over all the items to get that.

Sir HENRY THORNTON: Colonel Geary asks approximately how much of the \$141,000,000 is for refunding. We will look that up and give you that at the next meeting.

Mr. GEARY: I would like to know how much of your new requirements are to be financed next year.

Sir HENRY THORNTON: You want to know how much of that is addition to the property. We will get that for you, for the next meeting.

Mr. GEARY: And will the Minister be good enough to take that item, the Dominion of Canada item, as I know a good many of us here are dull about it.

Hon. Mr. DUNNING: You mean the \$1,290,216,481?

Mr. GEARY: Yes. Could you tell us how that has been treated in relation to the National Debt? I think you, with the Department of Finance, can give us a statement as to that.

Hon. Mr. DUNNING: You mean what proportion is in active assets, and what proportion is in non-active? My impression is that the great bulk is active.

Mr. HENRY: All but \$15,000,000 is non-active.

Mr. GEARY: It means that an addition to the public debt, at one time or another, so that we cannot get anything off the public debt in regard to that item, no matter how much we write off.

Hon. Mr. DUNNING: The writing off is an addition to the public debt.

Mr. GEARY: So that any addition which you make to the structure will not be a reduction in the public debt?

Hon. Mr. DUNNING: It will then operate to increase the public debt, as far as the \$15,000,000 now carried as an active asset is concerned. Mr. Henry will give you an analysis of that.

Sir HENRY THORNTON: Mr. Geary said that there was no way to alter any of that amount into an active asset, and the reply was, no it could not be so altered. I am not prepared to agree with that at all.

Hon. Mr. DUNNING: No, I did not mean that.

Mr. GEARY: I see how Sir Henry got that idea.

Mr. CANTLEY: Can you give us any idea of when you are going to take up the Merchant Marine?

Sir HENRY THORNTON: That is according to the pleasure of this Committee.

The CHAIRMAN: As soon as we get through this.

Mr. CANTLEY: Would you be good enough to give us some idea of the number of boats which have been sold from the fleet up to date?

Sir HENRY THORNTON: I can give Colonel Cantley any information he wants; but I think it would be better if he would reserve all those questions for the present.

Mr. CANTLEY: I am suggesting that you give me the information so that we can have it when we come to discuss the accounts. The number of boats sold up to date, the tonnage and the price, and so on.

The CHAIRMAN: Item 758.

Mr. COOPER (Reading):

#### CURRENT LIABILITIES

- Account 758—Loans and Bills Payable.
- 759—Traffic and car service Balances Payable.
- 760—Audited Accounts and wages Payable.
- 761—Miscellaneous Accounts Payable.
- 762—Interest Matured Unpaid.
- 764—Funded Debt Matured Unpaid.
- 766—Unmatured Interest Accrued.
- 767—Unmatured Rents Accrued.
- 768—Other Current Liabilities.

Mr. JELLIFF: Under the item of Current Liabilities, I notice a considerable increase in the total of those items, as compared with those for last year. Would Mr. Cooper give us an explanation of that?

Mr. COOPER: The big increase is the forty-three and one-half million dollars of borrowings from the bank.

#### DEFERRED LIABILITIES

- Account 769—Liability for Provident Funds.
- 770—Other Deferred Liabilities.

#### UNADJUSTED CREDITS

- Account 771—Tax Liability.
- 773—Insurance and Casualty Reserves.
- 775—Accrued Depreciation—Road.
- 776—Accrued Depreciation—Equipment.
- 777—Accrued Depreciation—Miscellaneous physical property.
- 778—Other Unadjusted Credits.
- 779—Additions to Property through Income and Surplus.
- 780—Funded Debt Retired through Income and Surplus.
- 781—Sinking Fund Reserves.
- 783—Appropriated Surplus.
- 784—Profit and Loss Balance—Deficit.

The CHAIRMAN: That is all for to-day. We will adjourn until Tuesday at 11 o'clock.

Committee adjourned until Tuesday next, April 30th, 1929, at 11 a.m.















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SESSION 1929

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6—TUESDAY, 30th APRIL, 1929

## WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. R. A. C. Henry, Deputy Minister, Department of Railways and Canals.

Mr. D. C. Grant, Vice-President, Finance Department, Canadian National Railways.

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1929





## MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

TUESDAY, April 30, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Cantley, Dunning, Geary, Gray, Hanson, Jeliff, Jenkins, McLean (*Melfort*), Milne, Power, Stevens.

*In attendance:* Sir Henry Thornton, President, Canadian National Railways, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Sir Henry Thornton supplied answers to several questions asked at the previous meeting.

### ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

The Committee considered the Profit and Loss Account, 1928, as contained on page 16 of the Report.

The Committee considered the Income Statement, as contained on page 17 of the Report.

At 12.50 p.m., the Committee adjourned until to-morrow, 1st May, at 11 a.m.

JOHN T. DUN,  
*Clerk of the Committee.*





## MINUTES OF EVIDENCE

COMMITTEE ROOM 497,  
HOUSE OF COMMONS,  
TUESDAY, April 30, 1929.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Let us proceed, gentlemen.

Hon. Mr. STEVENS: I should like to make a slight correction. On page 122 there are three questions against which the name of Mr. Geary appears, which were asked by me. I will cite the questions and the corrections can be made.

"Mr. GEARY:" —it should be "Mr. STEVENS: Including the \$5,000,000 which Sir Henry mentioned a few moments ago?"

"Mr. COOPER: No."

"Mr. GEARY:" —it should be "Mr. STEVENS: Will you give us the total amount under the receivers' certificates?"

"Mr. COOPER: I think it is about \$5,000,000."

"Mr. GEARY:" —it should be "Mr. STEVENS: I want our total obligation."

"Mr. COOPER: It will be about \$38,000,000."

The CHAIRMAN: I understand you have some corrections to make, Sir Henry.

Sir HENRY THORNTON: I would like to make one or two corrections. At the last meeting of the Committee I gave details of our financial requirements. The amount given against item 7, "New branch lines," was given as "\$500,000." This should have been \$1,500,000.

There was also some question as to whether the year's expenditures on the Montreal terminal scheme were included. The figures quoted did not include the Montreal terminal expenditures.

Colonel Geary asked this question: How much of the total appropriation for 1929, roughly \$141,000,000, was for refunding? The answer is \$57,000,000.

Colonel Cantley asked for a statement of a list of ships sold, the dead weight tonnage, and the sale price since, I should say, within the last six years. I have the list here. Will it be sufficient to hand it in?

The CHAIRMAN: Could this not be filed when we are considering the Merchant Marine?

Mr. CANTLEY: Yes, but I would like to have it now.

Hon. Mr. DUNNING: I would suggest that it be placed in the record in connection with our discussion on the Merchant Marine.

Mr. GEARY: How do you generally quote ship's tonnage—by dead weight?

Sir HENRY THORNTON: Dead weight.

The CHAIRMAN: At the last meeting we finished the balance sheets. Unless Mr. Stevens has some further questions, we will go on.

Mr. GEARY: There was a question I asked which I think Mr. Henry was to answer for me.

Mr. HENRY: As to the relationship between the public accounts and the balance sheets?

Mr. GEARY: No; it was a statement in order to get at the writing down of assets and thereby adding to the national debt, over a period of years.

Mr. HENRY: In schedule B of the public accounts of 1928.

The CHAIRMAN: Shall we read that into the record?

Mr. GEARY: No; that does not quite give it. There are railroad advances which are not in the public accounts?

Mr. HENRY: Then I did not understand your question. You wanted to know the amount included in the balance sheets?

Mr. GEARY: Mr. Gray and I were a little concerned about this item of the Dominion of Canada account, funded debt unmatured and loans. Then there is interest and appropriation. Leave the interest out, because that is a matter year by year. The \$581,000,000 plus the \$417,000,000 represent an amount which has been advanced in one way or another by the Dominion of Canada and then written down to non-active assets and thus the public debt increased.

Mr. HENRY: I misunderstood your question.

Hon. Mr. DUNNING: It would really affect it in this way—what you want is the proportion of the \$1,290,000,000 which is non-active, and when it became non-active.

Mr. GEARY: Yes sir. That is right. I think a simple way would be to give me each year's amounts and a notation as to whether it was written down as non-active.

Hon. Mr. DUNNING: If we say when they became non-active it would deal with both phases of it, because it was added to in each year.

Hon. Mr. STEVENS: A lot of that was paid out of the consolidated funds.

Mr. GEARY: A great deal of it was originally, of course.

Hon. Mr. STEVENS: Annually, by an appropriation of parliament. I presume that \$417,000,000 was all paid out of the consolidated fund.

Mr. HENRY: It was, but whether it appeared in the public debt at any time, I do not know.

Hon. Mr. DUNNING: You will have to take that up with the Finance Department.

Mr. GEARY: As Mr. Stevens has said, a great part of that was carried year by year—\$30,000,000 in one year, \$25,000,000 in another year, and so on.

Mr. HENRY: I doubt whether that can be done without going back into each year, because you cannot tell whether it was in any individual year or not.

Mr. GEARY: I do want that, because I cannot get it in the public accounts.

The CHAIRMAN: Are there any other questions on the balance sheet? If not, we will go to the index, profit and loss, page 16.

Mr. GEARY: I think we did not finish with the credit side of the balance sheet.

The CHAIRMAN: Yes, we finished the whole thing.

Mr. GEARY: Did we get the depreciation on road equipment?

The CHAIRMAN: Yes, we went through that, but if there are any further questions we can go back to it. Both you and Mr. Stevens were absent when we finished.

Mr. GEARY: That is something you credit to the American roads?

Sir HENRY THORNTON: Yes, that is what it is.

Mr. COOPER: The first item is Debit balance brought forward from the previous year. The next item is Debit balance transferred from income account



as shown on page 17. The next item is Surplus applied to sinking and other reserve funds; the next is surplus appropriated for investments in physical property; the next is Miscellaneous appropriations of surplus; Account 619 is loss on retired road and equipment. Item 620 Delayed income debits.

Mr. HANSON: Please explain what 619 and 622 mean.

Mr. COOPER: 619 is the loss when property is retired from service and not replaced. If we abandon a piece of property we would have to adjust the property account by writing out the ledger value, and if the property is not replaced the loss is a charge to surplus and not to operating expenses.

Hon. Mr. STEVENS: And the adjustment of the land surplus account is referred to on page 9 of the President's report?

Mr. COOPER: The major adjustment creating that charge of \$6,500,000 was in connection with certain land grants which the Canadian Northern Company considered it was entitled to receive from the provinces of Ontario and Quebec. Our balance sheets formerly carried a foot note that the title to these lands was questioned by the Ontario and Quebec governments. As I understand it, when the government took control of the Canadian Northern, the provinces claimed that these land grants should not be included, and we have been carrying them as assets. On the advice of our legal department in 1928 we wrote them off in view of the fact that we were told we could not expect to receive them—could not expect to receive the patents for the land grants.

Mr. GEARY: So you have given up any claim?

Sir HENRY THORNTON: We have not given up any claim, but for accounting purposes we have written them off.

Mr. GEARY: You are not carrying them anywhere?

Mr. COOPER: No.

Mr. HANSON: The effect is a practical release of the provinces from all liability of every character?

Sir HENRY THORNTON: I would not go that far. That is a question upon which I would not want to make any admission excepting upon advice of counsel.

Mr. HANSON: In working it out, it seems to me the provinces are being released from everything step by step, and year by year.

Mr. HENRY: The lands had not been chosen, and the provinces were testing the right of the National railway to get them.

Mr. GEARY: I think you could call it a wash-out.

Hon. Mr. DUNNING: I am not calling it any names at all.

Mr. COOPER: Account 603 "Profit on road and equipment sold", account 605, "Unrefundable overcharges", account 606, "Donations".

Mr. GRAY: What is that? Is that the Christmas tree to which Sir Henry referred?

Mr. COOPER: When a siding is constructed for an industry the usual practice is for the trader to advance the perishable cost, such as labour, ties, grading and things of that nature. The railway company furnishes the non-perishable material, such as steel, rails and fastenings, on a rental basis. Where a portion of the siding is constructed within the company's right of way, the company claims ownership in that siding although a portion of the cost had been advanced by the trader. Therefore, we make an entry charging the entire value to our investment account, and we credit the amount of that investment contributed by the trader to the Profit and Loss account as a donation.

Hon. Mr. DUNNING: A donation to the company?

Mr. COOPER: Yes.

Mr. GEARY: You get certain revenues which go against the trader's liability?

Mr. HANSON: You get more than that; you get the annual rental from the industry.

Mr. COOPER: We get the rent for the use of our rails and fastenings.

The CHAIRMAN: And also the land, when it is used.

Mr. COOPER: We do not charge the trader rent for the land.

Mr. HENRY: Six per cent of the value of the material which the company supplies.

Mr. GEARY: They charge for moving cars over that siding.

Mr. COOPER: There would be a regular switching charge.

Mr. GEARY: They are in your agreement.

Mr. COOPER: I think what you probably have in mind is that where the trader would advance the cost of the siding, it would be refunded to him on a car basis.

Mr. GEARY: That is not the sort of thing to which you are referring?

Mr. COOPER: No. This is where the cost is paid by the trader, and he has no recourse against that. The purpose is to put it into the investment account so that the investment account will include everything we have.

Mr. HANSON: He does not get it back?

Mr. COOPER: No.

Mr. CANTLEY: Would it not be better to describe it as a contribution?

Mr. COOPER: We use the regular forms of income and profit and loss contained in the Inter-State Commerce Commission regulations. "Contributions" is all right, but the classification says "Donations," so we use the word "Donations".

Mr. HANSON: In the event of the industry falling down, you make an adjustment.

Mr. COOPER: If the siding were taken up we would have to write it out of the property account.

Mr. GEARY: If a man chooses to spend money in that way, he cannot get it back?

Mr. COOPER: No. Account 607 "Miscellaneous Credits and Debits net."

Mr. HANSON: What is that?

(After a statement by Mr. Cooper.)

Hon. Mr. STEVENS: Put it in the record simply that a portion of this is an adjustment of certain securities bought out of sinking fund.

Mr. COOPER: We have a credit of \$2,092,000 from the writing up of the stock of the Detroit and Toledo Shore Line. We have \$714,000 par value; we were carrying it in our accounts at \$50,000, and we wrote it up to three times par value.

Hon. Mr. STEVENS: Why?

Sir HENRY THORNTON: Because the proprietors of the railway which is jointly owned by ourselves and some other railways decided that the earning value of the property justified writing it up to that amount.

Mr. HENRY: It was approved by the Inter-State Commerce Commission?

Mr. COOPER: Yes; it was really done to make our balance sheet position now before the Commission of the Grand Trunk Western Consolidation properly reflect the situation. \$2,092,000 is the Shore Line stock.



Mr. GEARY: Any other items in that?

Mr. COOPER: Another item is \$387,000 which was the capital stock of the Toledo Terminal Railway Company.

Hon. Mr. STEVENS: The same thing?

Mr. COOPER: Yes. We have another item of \$227,000, and then an item of \$625,000 which was the amount carried in accounts 779 and 780 on the balance sheet, and which we moved down to account 784. This also was done in connection with the presentation of our Grand Trunk Western situation before the Commission. The purpose was to prepare a balance sheet which would properly show the situation to-day, and the things which we did were done with the approval of the accounting officials of the Commission.

Mr. GEARY: That would be a charge in this particular account?

Mr. COOPER: No, these are credits.

Mr. GEARY: That means a writing up of that item.

Mr. COOPER: In respect to the Shore Line stock and the Toledo Terminal stock it would involve the writing up of account 706, and the corresponding credit to account 784. In respect to the other items it meant the transfers from accounts 779 and 780 to account 784.

Mr. GEARY: It is a credit then to the Profit and Loss account.

Mr. COOPER: Why certainly it is.

Mr. GEARY: And a charge to the other two?

Mr. COOPER: Yes, you can describe it that way. To put it accurately, it is a transfer to Free Surplus of surplus which had been appropriated for investment in physical property and for debt redemption.

Mr. GEARY: I think I have it in my own way.

Sir HENRY THORNTON: You describe it accurately, and Mr. Cooper describes it technically.

Hon. Mr. STEVENS: It only brings forward the necessity of carrying out what Sir Henry mentioned the other day that he had in his mind and had been working on, namely, the revaluation of the whole financial structure. In other words, this main item of \$278,000,000 in this case has been written up, whereas we know there is contained in that some items which should be written down, and it is rather desirable that that adjustment should be made as early as possible. I was hoping we might have had something from Sir Henry this year.

Sir HENRY THORNTON: That statement will excite nothing but applause from this side of the table.

Mr. GEARY: We can divide the applause amongst different items.

Sir HENRY THORNTON: Then we will have a continuous symphony.

Mr. GEARY: I hope it will not be a discord. Roughly speaking, how is that made up, Mr. Cooper?

Mr. COOPER: The \$472,000,000?

Mr. GEARY: Is it the general government advance?

Mr. COOPER: \$278,000,000 of that is interest accrued in favour of the government.

Mr. GEARY: That is on the credit side of your balance sheets?

Mr. COOPER: Yes, and the balance is the excess of fixed charges over operating income over a period of years for all the companies. It is the accumulated deficit of the Canadian Northern, the accumulated deficit of the Grand Trunk, the Grand Trunk Pacific and all subsidiary companies, and the results of the Canadian Government Railways from the date they were transferred to the Canadian National for management and operation.

Mr. GEARY: You have it as from the time you took over?

Mr. COOPER: Yes. The books constitute a proper historical record of continuous operation.

Sir HENRY THORNTON: We took those as we found them.

Mr. COOPER: Mr. Matthews was speaking of the position of Touche & Company as auditors, but we are the successors of these corporations and we simply continued their records. We did not commence a new set of books.

Mr. GEARY: You accepted them as stated by the company as of January 1, 1923? You did not change those previous figures?

Mr. COOPER: No.

Hon. Mr. DUNNING: We are still those companies.

Mr. GEARY: I was wondering if you had gone into the bookkeeping before that.

Hon. Mr. DUNNING: The date the present organization took control from the original private owners goes back to 1919, but there has been a continuous company record.

Mr. GEARY: Which you have controlled since that time.

Sir HENRY THORNTON: I think Colonel Geary is right there.

Mr. GEARY: You do not admit the correctness nor have you anything to do with the correctness of the books as you found them?

Mr. COOPER: No. I think it is a correct statement. Neither in the investment in property accounts nor in the corporate surplus account could we certify as to their correctness.

Mr. McLEAN (*Melfort*): Does that include deficits accumulated on the old roads?

Mr. COOPER: It includes the accumulated deficits of those companies right back to their inception.

Hon. Mr. STEVENS: With the exception of the I.C.R.

Mr. COOPER: Yes.

Hon. Mr. DUNNING: The companies are still here. We are merely managing them now instead of the people who formerly managed them.

Mr. GEARY: That will come in in the reconstruction?

Hon. Mr. DUNNING: Yes, it is a big part of the problem.

Sir HENRY THORNTON: The big part of the problem in developing our new proposed financial structure was the investigation of this very thing, and the finding out what the actual financial positions of those constituent companies were.

Hon. Mr. STEVENS: Mr. Chairman, the Minister (Hon. Mr. Dunning) mentioned the other day that he felt we should not discuss this question of financial reconstruction because of the action of certain old Grand Trunk shareholders. Naturally I do not want to embarrass the Minister, but would that seriously interfere with proceeding with the matter?

(After a statement by Hon. Mr. Dunning.)

Hon. Mr. DUNNING: Owing to certain pending litigation it is inadvisable to discuss the question at this time.

The CHAIRMAN: We have already discussed items 501 and 531 in the analysis for the operating expenses. We might go on from there.

Mr. COOPER: Account 532 "Railway tax accruals".

Hon. Mr. STEVENS: What are those, briefly,—in general terms?

Mr. COOPER: Provincial, municipal and state taxes.



Hon. Mr. STEVENS: On real estate, and so forth?

Mr. COOPER: On the physical property of the company.

Mr. GEARY: Accrued, but not due.

Mr. COOPER: Some are paid, and some are accrued. In Canada, most of the taxes are paid; in the States they are accrued. That is a charge to the 1928 income account—the liabilities for unpaid taxes you will find in item 771 on page 15.

Hon. Mr. STEVENS: Why do you use the word “accruals” there instead of the bald statement “railway taxes”? It implies that it is an adjustment, as you adjust interest not yet due. These are paid, are they not?

Mr. COOPER: I will put it this way: the total charge to income during the year was \$4,998,000, of which \$1,772,000 had not been paid at December 31st.

Mr. GEARY: It is railway taxes paid and accrued.

Mr. COOPER: Yes. The entire income account is on the accrual basis, not on a cash basis.

Mr. HANSON: And covers the total liabilities for the period.

Mr. COOPER: The earning and expenses for the year.

Mr. McLEAN (*Melfort*): When are those taxes payable?

Mr. COOPER: This item of \$1,772,000 is chiefly in the States; it becomes payable around the first of May.

Mr. GEARY: This is the appropriation up to December 31st?

Mr. COOPER: It is the appropriation of taxes chargeable to the 1928 income account.

Mr. GEARY: You do not compute that on a per diem basis, but take the whole sum as assessed and levied on you.

Mr. COOPER: We estimate what our taxes will be and charge it to income month by month. At the end of the year we find out what our unpaid taxes are, and we adjust the income account to that basis.

Mr. HANSON: There has been an agitation in some municipalities in the maritime provinces with respect to this. The railway has not changed its policy with respect to that?

Sir HENRY THORNTON: No.

Mr. COOPER: Account 533 “Uncollectible Railway Revenues”; “Railway Operating Income”; account 502 “Revenues from Miscellaneous Operations”; account 534 “Expenses of Miscellaneous Operations”; and account 535 “Taxes on Miscellaneous Operating Property”. “Miscellaneous Operating Deficit”, “Total Operating Income”. Account 504 “Rent from Locomotives”; account 505 “Rent from Passenger Train Cars”; account 506 “Rent from Floating Equipment”; account 507 “Rent from Work Equipment”.

Hon. Mr. STEVENS: Do not let us go too fast.

Mr. HANSON: Or we will be out of a job.

Hon. Mr. STEVENS: Not only that, but it will mystify some of us fold here.

Hon. Mr. DUNNING: Impossible.

Mr. COOPER: 502 are the revenues from our different hotels; 534 the expenses, and 535 the taxes against the hotel properties.

Mr. HANSON: This shows the deficits in italics.

Mr. COOPER: \$133,545.89 is loss, and the principal reason for that loss is the charge to the Chateau Laurier operations of some \$200,000 in connection with the cost of alterations.

Mr. HANSON: Does that take into account interest on capital invested in hotels?

Sir HENRY THORNTON: No.

Mr. HANSON: Just simply operations.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Is it in order to ask what the extensions to the Chateau will cost to date?

Sir HENRY THORNTON: I cannot give that offhand.

Hon. Mr. STEVENS: Could we have that to-morrow, together with the total cost of finishing, including furnishings.

Mr. McLEAN (Melfort): Mr. Cooper, would you explain the \$200,000 charged to the Chateau for alterations, before we can use it?

Mr. COOPER: Yes. The architects were asked to make an estimate of the proportion of the gross expenditures which would be chargeable to operation, as representing property retired, in connection with the alterations, and the cost of moving furnishings and equipment and things of that sort from one place to another. They gave us an estimate of \$600,000, and they told us that \$200,000 of that had been incurred up to December 31st, so we charged against the hotel operations \$200,000.

Mr. McLEAN (Melfort): None of that is charged to new capital cost?

Mr. COOPER: No. Of the cost of the alterations of the Chateau we expect to absorb \$600,000 in our operating account.

Mr. McLEAN (Melfort): If it had not been for that, you would have shown a profit?

Mr. COOPER: Apart from that we would have had a profit of \$67,000, as compared with a loss of \$12,000 in 1927.

Sir HENRY THORNTON: We will give you that statement to-morrow.

Hon. Mr. STEVENS: Give the number of additional revenue rooms also.

The CHAIRMAN: Items 504, 505, 506 and 507. Item 508 "Joint facility rent income".

Mr. HANSON: What is that item for?

Mr. COOPER: That is the rent we receive from other carriers which participate with us in the joint use of properties such as, for instance, the Ottawa terminal.

Mr. HENRY: For which the National has invested the capital.

Mr. COOPER: Account 509 "Income from Lease of Road"; account 510 "Miscellaneous Rent Income"; account 511 "Miscellaneous Non-operating Physical Property"; account 512 "Separately Operated Properties—Profit"; account 513 "Dividend Income"; account 514 "Income from Funded Securities"; account 515 "Income from Unfunded Securities and Accounts".

Of this latter \$607,000 is interest on bank balances; \$426,000 is interest during construction on capital expenditures—those are the two principal items in the account.

Item 516 "Income from Sinking and other Reserve Funds"; 519 "Miscellaneous Income"; 536 "Hire of Freight Cars—Debit Balance".

Hon. Mr. STEVENS: Give us a brief general description of that item.

Mr. COOPER: That is the per diem we paid foreign lines for their cars used on the Canadian National system in excess of Canadian National system cars on foreign lines. In 1928 we had an increase of 3,293,000,000 net ton miles. In 1927 we handled 466 net ton miles per car days, and theoretically would have required 7,066,000 car days to handle the additional tonnage of 1928. This at a per diem of \$1 per car per day would have increased the adverse per diem balance by \$7,066,000. Economies were effected by improved transportation methods resulting in heavier loadings and quicker movements; the



average car loading was increased from 24·80 to 25·32 tons, and the average miles per car day increased from 28·8 to 30·5. The result has been to increase the net ton miles per car day from 466 to 510, and we calculated with that reduced theoretical adverse per diem balance we could have exceeded by \$4,693,000—

Hon. Mr. STEVENS: In other words, while it increased \$2,200,000 it might have on that theoretical basis increased \$7,000,000.

Sir HENRY THORNTON: Had the transportation performance not been improved that would have been the case.

Hon. Mr. STEVENS: Coming back to what I asked you the other day, it does seem like a striking increase in the use of foreign cars.

Sir HENRY THORNTON: No doubt about that.

Hon. Mr. STEVENS: The point which agitates my mind is this; I recall very well about 1919 or 1920 there were very strenuous efforts made by United States companies to get back their cars owing to the shortage which accrued on their own roads. Assuming that such an event occurred again would not the National railway find itself very seriously handicapped by the withdrawal of those cars?

Sir HENRY THORNTON: Undoubtedly, Mr. Stevens. If we were unable to rely upon foreign lines for the use of equipment, such as we did last year, we would find ourselves seriously embarrassed. On the other hand we feel that the risk is not sufficient to justify equipping the railway with sufficient cars to take care of the seasonal movement, having regard for the fact that a very large proportion of those cars would be idle the rest of the year. It is entirely a matter of judgment.

Mr. GEARY: You do not build up to your peak?

Sir HENRY THORNTON: No, and I do not believe any industry is really justified in taking care of the seasonal and periodical peak conditions in their business.

Mr. HENRY: I might add to what Sir Henry has said by saying that the peak conditions in Canada do not synchronize with those in the United States, and therefore there is an opportunity of using the cars. The circumstance to which Mr. Stevens referred related to a condition following the close of the war when there was a shortage of equipment all over. That has been largely cured in the United States; they have all the necessary equipment now.

Sir HENRY THORNTON: And it is only fair to remember also that the demand for equipment resulted from an extraordinarily big crop last year, which was somewhat exceptional.

Hon. Mr. STEVENS: Let me put it this way: to capitalize the \$2,200,000, which was the increase over last year in this form of service, would give you \$40,000,000 at 5 per cent.

Hon. Mr. DUNNING: But you have to pay interest on it every year.

Hon. Mr. STEVENS: That would give you 14,000 new cars.

Mr. HENRY: I do not think your figures are quite right. You are figuring \$1 a day.

Hon. Mr. STEVENS: No, I am taking what you paid out in excess this year over last year, \$2,200,000. If you capitalize that, it will give you more than \$40,000,000 at 5 per cent.

Mr. HENRY: That is on the basis of \$1 a day. The fact is that the whole of the dollar is not represented by capital; I think it is about 60 cents.

Hon. Mr. STEVENS: You paid out that amount. I do not care what you paid per diem; you paid \$2,200,000 in excess of what was paid last year for that service.

Mr. HENRY: You are wrong in the conclusion that you would have to have \$40,000,000 worth of equipment to offset that.

Hon. Mr. STEVENS: It would provide for that, but you could capitalize it, and if you take that capital you could provide the very best modern freight cars—about 15,000 or 16,000 of them.

Sir HENRY THORNTON: Mr. Stevens means that instead of paying that excess per diem the thing to do is to pay it as interest on equipment purchases, as far as it will go.

Hon. Mr. STEVENS: The point at issue is whether or not that is an extravagant way of doing business. If you will permit me to digress for a moment, what is your total number of freight cars?

Mr. HENRY: About 118,000 or 119,000.

Hon. Mr. STEVENS: You could add, say, 5,000 and probably save a great deal of money in that way.

Mr. GEARY: You would have to charge a depreciation on the cars.

Sir HENRY THORNTON: That includes certain charges on the liability side as well. We are strengthening our equipment in quality and character as well as numbers year by year. It has to be done with caution and with prudence and with reasonable regard for the company's general financial position. The real answer to your question is that in the opinion of the operating officers and myself we consider, having had regard for all the circumstances, that this is the prudent thing to do. There may be a difference of opinion, but this is what we think is a prudent thing to do.

Hon. Mr. STEVENS: In order to get these figures quite clear on the record, what is the gross total amount paid out for the hire of freight cars last year. This (indicating) gives you a debit balance of \$5,800,000. That represents the amount in excess you paid out over what you received for the hire of your cars from other roads. That is correct?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: It means that an enormous number of foreign cars are being used?

Mr. FAIRWEATHER: Approximately \$13,000,000 paid out, and approximately \$7,500,000 received. These figures will not agree with the income account, because the income account, as Mr. Cooper has said, is on the accrual basis, and these happen to be on the monthly basis.

Hon. Mr. STEVENS: They are very close. Your difference is \$6,000,000 and this is \$5,800,000, so to all intents and purposes it is the same.

Hon. Mr. DUNNING: That means that other railroads paid us when we had cars to spare within a measureable distance of what we paid them.

Hon. Mr. STEVENS: No, that is not the point I am making. You paid out \$13,000,000 and received \$7,500,000.

Hon. Mr. DUNNING: The point I am making is that there must have been a period during the year when we could let them have a large number of our cars.

Mr. HANSON: That is a constant factor. They are using some of your cars all the time, but then the actual cash is \$5,000,000, and the \$2,000,000 accruing makes approximately \$7,000,000.

Sir HENRY THORNTON: We figure that it costs us 95 cents a day to own a car, and \$1 a day to rent one.

Mr. HANSON: Are they as close as that?

Mr. McLEAN (Melfort): The information I should have in order to judge of this would be as to the number of days during which you paid rental for any



cars. For instance, if you had 100,000 cars—or any number—for a few days it would not pay to build them, but if you had them in use over a period of six months, it probably would.

Sir HENRY THORNTON: You have opened quite a technical transportation question. It is not an easy thing unless you have lived in the atmosphere of railroading to understand just what this per diem means. All I can say is that the technical officers and myself who have studied the question believe, having regard to all the circumstances, that we are doing the prudent thing. There is no doubt about it but what as the years go by we will build up our equipment both in the number of cars and their character, but all those things cannot be done in a year, or in a few years. It has to be a general upbuilding.

Hon. Mr. STEVENS: What do you include in the 95 cents?

Mr. COOPER: Maintenance, 39 cents; replacement 15 cents; taxes, 4 cents; interest  $23\frac{1}{2}$  cents, and other allowances, 12 cents.

Hon. Mr. STEVENS: Forty-three cents of that amount you would have to pay on your hired cars, because you have to keep them in repair and pay the taxes, so it would not be 95 cents as against \$1, because your \$1 is increased by the maintenance of the car.

Mr. COOPER: The cost of maintaining a hired car is charged back to the owner.

Hon. Mr. STEVENS: Do you mean to say that you do not oil the cars, and so forth?

Mr. COOPER: Running repairs, yes, but they are a very small proportion of the maintenance of the car. The main repair cost of a hired car is charged back to the owner, because the \$1 which he receives compensates him for that.

Hon. Mr. STEVENS: I can understand it for what we may call major operations only, but in the daily running expenses it would be—

Mr. COOPER: No; I was told at one time that repairs would be divided 95 per cent owner's defects and 5 per cent running repairs.

Mr. HANSON: Is it the invariable custom that all repairs are paid by the owners? Consider a case on the Transcontinental where they had a wreck near McGillivray Junction within the last six months where there were a number of foreign cars damaged, and the damage must have amounted to thousands of dollars.

Mr. COOPER: If we wreck a foreign line car, of course we have to pay for it. The \$1 includes repairs, replacements, taxes, interest, and one or two other elements.

Mr. McLEAN (Melfort): It might clear the matter to a certain extent if we could get the number and classes of cars required for a short period—for a seasonal rush.

Sir HENRY THORNTON: We can get that for you.

Mr. GEARY: Have you a demand for cars by foreign roads which at times you cannot supply? Have you not had more times when you could not be sure of renting them?

Sir HENRY THORNTON: It depends entirely on circumstances.

Mr. HENRY: Probably I can explain what you have in mind. In Canada the peak occurs from about the 15th of September until the 15th of December, and at that time we require about 25 per cent more cars than the average, but only for that period. Now, if we would invest in the total number of cars required to take care of that maximum peak, we would have to find other work for them to do some place else, and probably we could not find it.

Hon. Mr. STEVENS: I would not like to let the Committee have the impression that I am not aware of all that, but I am calling attention to the fact

that this year we have \$2,200,000 above what it was last year, and I am looking for the justification of that excess. I quite understand that you have a peak season and must get extra rolling stock and it is good to get foreign rolling stock for that period. I rather imagine the American roads are at times looking for quite a bit of extra stock for the same purpose.

Sir HENRY THORNTON: They are very glad to let us have cars when they cannot use them themselves.

Mr. HANSON: The net amount paid is a huge sum—\$5,500,000 actually paid.

Sir HENRY THORNTON: Of course, a great deal of this depends on the balance of international traffic. We get a very large number of American cars which come to us loaded, and we try to send them back loaded. It would be foolish to send them back empty if we could load them.

Hon. Mr. STEVENS: You hang on to them until they are loaded?

Sir HENRY THORNTON: Every road does.

Mr. McLEAN (Melfort): What part of this \$2,200,000 is due to the number of American cars loaded, upon which rental has been paid until they could be sent back loaded.

Sir HENRY THORNTON: Undoubtedly a good portion.

Mr. HENRY: A great portion of the Grand Trunk Western cars come back empty.

Mr. GEARY: How do you keep track of a freight car? It is like looking for a needle in a haystack.

Mr. HENRY: They have a record of every car.

Mr. GEARY: One of your cars may be in Texas.

Mr. HENRY: Absolutely.

Sir HENRY THORNTON: I saw one in Mexico.

Mr. GEARY: You won't get that back; it is probably armoured by now. Do not these cars ever get lost?

Mr. HENRY: There is another instance I might mention. This per diem includes the rental for private cars as well, and even with everything else taken into account, you would still have over \$2,000,000 of an adverse per diem balance by virtue of that one thing alone.

Mr. HANSON: I thought you had a whole battery of private cars.

Mr. HENRY: I mean private freight cars such as special refrigerator cars which come through on a margin basis.

Mr. CANTLEY: If you had abundant traffic, would you not get more cars?

Sir HENRY THORNTON: What do you mean by "abundant traffic"? With all due respect to you, Colonel Cantley, that phrase is a little loose.

Mr. CANTLEY: If you had ample capital—

Sir HENRY THORNTON: I do not think that would materially change our policy. Why spend your own money when you can use somebody else's?

Hon. Mr. DUNNING: One of the criticisms against public ownership in Europe is that institutions which are able to go to a taxing body for the purpose of raising money have a tendency to overequip, as being the easiest thing for the management to do. I have had to go into this thing with respect to further equipment loans, and I think this whole discussion is rather a compliment to the management. Naturally I take their view of it as we examine it from time to time, and I rather think they give every indication of watching closely from the point of view of the economics of this particular system, having regard to the fact that they can come to the government to get money.



Sir HENRY THORNTON: Consider a road like the Pennsylvania. Its gross earnings are \$600,000,000 a year and its net earnings are over \$100,000,000. There is a railway with very ample funds, and with a very large margin between their financial requirements and their available funds. Such a railway would undoubtedly be more liberal in the purchase of equipment, and would not be under the same necessity of watching every penny as are we, and would probably have, even if you took into regard the traffic requirements, more cars per mile than we have. It all comes down to the consideration of the circumstances which confront you, coupled with technical knowledge and business prudence, and there is no formula which will tell you precisely what to do. It has got to be the exercise of judgment on the part of those who are supposed to know something about the business, and that is about all one can say of it.

Mr. CANTLEY: You have a considerable number of wooden cars which are out of date. Some of them I feel very strongly are a menace to the operation of the road. I take it that if you had ample credit or ample funds you would put them out of service faster than you are doing and replace them with modern equipment.

Sir HENRY THORNTON: Affluence is no excuse for extravagance, and if we were affluent I would still proceed with the same prudence, and I hope judgment upon which we are proceeding now.

Mr. CANTLEY: I hope you would proceed a little faster.

Sir HENRY THORNTON: We might. I instanced the case of the Pennsylvania railroad with ample funds: they could be more liberal than we are justified in being.

Mr. GEARY: They would scrap them quicker?

Sir HENRY THORNTON: Probably.

Mr. GEARY: I do not want to belittle Colonel Cantley, but have you any cars which are a menace to operation?

Sir HENRY THORNTON: I think that is too forceful a way of expressing it.

Mr. CANTLEY: You have wooden cars fifteen years old and more which should be put out of service.

Sir HENRY THORNTON: Some of them are doing very good service. If Colonel Cantley makes the statement that any portion of our equipment is a menace to the railway, I would say that it is not.

Mr. CANTLEY: It is my opinion that there is equipment which should be retired.

Sir HENRY THORNTON: That may be, but it is not mine. There are a lot of things on this railroad I should dearly love to do which involve the expenditure of money. There is nothing a railroad officer likes to see more than a fine rock-ballasted railway, with one hundred and thirty pound rails, automatic signals, the best locomotives, and the best cars. It is a delight to look at that sort of thing, but we have to consider other things as well.

Mr. GEARY: Are you running cars which are economically wasteful which you would like to replace, from a dollars and cents standpoint? That is until you get your equipment?

Mr. COOPER: Yes.

Mr. GEARY: The last few years in the life of a car probably costing altogether too much?

Sir HENRY THORNTON: Oh, yes.

The CHAIRMAN: Number 537.

Mr. COOPER: 537, Rent for Locomotives; 538, Rent for Passenger Train Cars; 539, Rent for floating equipment; 540, Rent for work equipment; 541, Joint facility rents; 542, Rent for leased roads; 543, Miscellaneous rents.

Mr. GEARY: You lease roads or running rights to the Canadian Pacific Railway, such as from Toronto to Hamilton?

Mr. COOPER: That is Joint facility rent income. That would be 508.

Mr. GEARY: This Joint facility rent?

Mr. COOPER: This is a debit account, where we pay rent to another.

Mr. GEARY: You are just about paying as much as you are receiving on that?

Hon. Mr. DUNNING: About \$25,000 less.

Mr. COOPER: 542, Rent for leased roads; 543, Miscellaneous rents; 544, Miscellaneous tax accruals; 545, Separately operated properties—Loss; 546, Interest on funded debt.

Hon. Mr. STEVENS: Just on that——

Mr. GEARY: The next is the important item.

Hon. Mr. STEVENS: On this item of funded debt, on pages 28 and 29 we have the funded debt set forth. I have not had the time to go through that and check it up very carefully, but could we have a statement, Sir Henry, to-morrow—I think it could be given to us very readily—of the securities that have been issued and sold, say, during the time since you took hold, and the amounts paid, refinanced or paid off—the maturing securities paid off and the new issues?

Sir HENRY THORNTON: What you really want, I take it, is the change in the capital position since 1923?

Hon. Mr. STEVENS: Yes, but shown in that way, the total amount issued, and the total amount paid off, leaving, of course, the increase which would show, say over the period of this balance sheet. That is 1923, is it not?

Hon. Mr. COOPER: Yes.

Hon. Mr. STEVENS: I notice there are some short issues which have been issued and paid off, and so on, and we might have that.

Sir HENRY THORNTON: You understand what Mr. Stevens wants?

Mr. COOPER: Yes, we will have that.

Sir HENRY THORNTON: Of course, when the various properties which now compose the Canadian National Railway system were consolidated under one central administration, we found ourselves confronted with a number of different properties, most of which had not been built for the purpose of creating one complete unit, but had been built without any regard one for the other, and generally for the purpose of competing one with the other. In some cases those properties were, from the physical point of view, incomplete; and in many other cases the facilities were badly arranged and insufficient, not in so far as those properties themselves were concerned, but in so far as each one had an effect upon a co-operative whole. Also there was this very question of equipment that we are discussing; I mean locomotives, box-cars, sleeping cars and equipment generally. Now the great problem that confronted us was to arrange to provide such facilities as would permit those discordant parts to operate as one, each part more or less in accord with the other. That involved necessarily very considerable additions to capital, as one can easily see. Take, for instance, this one question of rock ballast and heavier rail on our lines between Montreal and Chicago. We have been pursuing a consistent policy, an increasingly vigorous policy, to as rapidly as possible equip that part of the railway with stone ballast, automatic signals and heavier rail, a large part of which must necessarily go to capital.



I want the Committee to understand that when the various constituent parts which go to make up this system were handed to us they were discordant and had to be brought into co-ordination one with the other to become what I would describe as a unit.

There was a large number of wooden trestles which had to be taken up. Not only that, but in most of the cases they had outlived their usefulness and had deteriorated so that they had to be renewed, and also because heavier power had to be used.

I do not want this Committee to go away with the idea that when the system was handed over to us we were handed a complete railway. We were handed a very discordant number of parts, a railway which was insufficient in many ways in its railways and traffic. All that involved a good deal of money to put the railway into an efficient position. And the answer as to whether that was wise or not is found in the increasing net earnings, which have increased from \$3,000,000 for 1922 to over \$58,000,000 last year.

Mr. GEARY: A good deal of that had been done before you came.

Sir HENRY THORNTON: The work had commenced, and some of it had been done; and during the intervening six years we proceeded with it with greater vigour than those who preceded us had been able to pursue it. And then again the great advantage was that it was all under one administration, instead of two, as it was before.

Mr. GEARY: You also had to incorporate in one system some lines which were built to compete with each other?

Sir HENRY THORNTON: That was the great trouble. When these railways were built to compete one with the other, we found a duplication of facilities and, in other cases, facilities which were badly arranged for consolidating purposes. Unless a person really had lived with this, as I have lived with it and as the various officers of the company have lived with it for the past six years, I do not think anybody really will appreciate what an extremely difficult matter it was to unravel the whole thing and put it into such a shape that it will be in harmony instead of in discord.

Mr. GEARY: How many miles of track have you had to take up?

Sir HENRY THORNTON: We have had to take parts of one line and put it with another line, so as to get a minimum grade or an improvement in alignment.

Mr. GEARY: The Toronto and Eastern, was there not steel laid on that?

Sir HENRY THORNTON: Yes, we took up part of that.

Mr. GEARY: What became of that right of way?

Sir HENRY THORNTON: We still have got it.

Mr. GEARY: You cannot use it, I suppose?

Mr. COOPER: The Oshawa Street Railway is using part of it.

Sir HENRY THORNTON: The railways, as we took them over, were like an orchestra, with each instrument playing its own tune independently of the others; and we are trying to get harmony out of the whole.

Hon. M. STEVENS: You ought to be complimented upon the way in which you have got harmony out of your organization.

Sir HENRY THORNTON: If anyone is to be complimented it is the orchestra upon the way in which they have responded.

The CHAIRMAN: Item 546A.

Mr. COOPER: 546A, Interest on Dominion Government Advances.

Mr. GEARY: That is a little less.

Mr. COOPER: About \$9,000 odd, \$9,664.

Mr. GEARY: That does not remain constant?

Hon. Mr. STEVENS: In last year's statement there is a discrepancy in the figures. In the last year's statement, December 31, 1927, it shows \$32,190,648. In here for December 31, 1927, it shows \$31,891,966. How does that come?

Mr. COOPER: That is the published 1927 statement included in the Canadian National, six months of the Eastern Lines, whereas we take out, for comparative purposes in 1928 the Eastern Lines for the full twelve months. And that answers Colonel Geary's question, that the interest charged on the Eastern Lines was \$625,000 in 1928 as compared with \$613,000 for 1927.

Mr. GEARY: That is \$12,000 as against \$7,000,—that does not quite explain it. If you will tell me that to-morrow.

Mr. HANSON: There is a very substantial increase on your floating debt, Sir Henry?

Mr. COOPER: Interest on unfunded debt. That is interest on temporary loans from the Dominion Government, \$835,000; interest on temporary loans from the Dominion Government on account of the Central Vermont, \$227,000; discount on notes issued to various banks securing temporary loans, \$306,000; interest paid to the Dillon, Reed Company, in connection with the financing they did of Central Vermont bonds, \$110,000.

Mr. HANSON: That does not include, then, any interest on the monies you borrowed from the bank?

Mr. COOPER: It includes it as discount. The notes were discounted and we charged up \$306,000 on the 1928 accounts.

Mr. HANSON: By the way, that temporary financing with the banks, was that authorized by Parliament? Part of it was for capital expenditure, instead of selling bonds, as I understand it.

Hon. Mr. DUNNING: Do you mean the bank credits?

Mr. GEARY: Yes, the \$40,000,000.

Hon. Mr. DUNNING: I cannot just at the moment answer how it was authorized, but I know that before it went through the necessary authorization would have to be secured.

Mr. GEARY: You would guarantee it?

Hon. Mr. DUNNING: No, there was no guarantee.

Mr. COOPER: All the advances were against monies appropriated by Parliament.

Mr. HANSON: And it was a matter of policy, I understand, with the railway to borrow temporarily rather than to sell long-term securities.

Hon. Mr. DUNNING: Yes. In the Budget Vote this year, you will find at the bottom of page 2, the following:—

Should temporary loans be made or negotiated before the lapse of this appropriation either from His Majesty or other persons, guaranteed notes, obligations or securities may subsequently be issued under the provisions of the preceding paragraph of this enactment to renew, refund or adjust such loans, or any part thereof.

I could not put my finger on that at the instant, but Mr. Henry found it.

Mr. HANSON: I had no question that it would be authorized, but I wanted to know where.

Hon. Mr. STEVENS: You said, Mr. Cooper, that the borrowings from the banks were by notes discounted.

Mr. COOPER: Yes.



Hon. Mr. STEVENS: Will you give us a statement of that to-morrow, when you give us the particulars of the other loans, showing just what you received for the discounted notes?

Mr. COOPER: They were discounted at the rate of  $5\frac{1}{4}$  per cent.

Hon. Mr. STEVENS: For how long?

Mr. COOPER: Six months. They were due on April 15, and they have just been extended for six months.

Hon. Mr. DUNNING: At the rate of  $5\frac{1}{4}$  per cent per annum?

Mr. COOPER: Yes.

Mr. GEARY: A little more than  $5\frac{1}{4}$  per cent?

Mr. COOPER: Yes, a little.

Sir HENRY THORNTON: A question was asked as to how many miles had been abandoned, and the answer is 390 miles.

Hon. Mr. STEVENS: Does that include the stretch near Edmonton?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Item 548.

Mr. COOPER: 548, Amortization of Discount on Funded Debt; 551, Miscellaneous Income Charges. Miscellaneous Appropriations of Income.'

Mr. GEARY: Will you tell me on that discount, is there much on your present financing?

Mr. COOPER: On the \$35,000,000.

Mr. GEARY: In the last two or three years, you have issued 5 per cent securities, I suppose, and do you get anything near par for it now?

Sir HENRY THORNTON: You will correct me, if I am wrong, but I think it was about 97.

Mr. COOPER: The \$35,000,000 was issued at 94 and something.

Sir HENRY THORNTON: I can give it to you right here. There was \$65,000,000 issued at  $4\frac{1}{2}$  per cent, 30 year Gold Bonds, at 97.02.

Mr. GEARY: Do you know at what those reached the public?

Sir HENRY THORNTON: Yes, at 98.5. Then there were \$35,000,000 40 year Gold Bonds,  $4\frac{1}{2}$  per cent, at 94.15. issued December 1 last year. That was the last.

Mr. GEARY: Are you making them all  $4\frac{1}{2}$  per cent now?

Sir HENRY THORNTON: We have not put out anything since that.

Mr. GEARY: Of course that is a question of financing, and if you make it a higher rate you may get more money for it, but that is what you set up the Amortization for.

Mr. McLEAN (Melfort): At the time you sold your bonds?

Mr. D. C. GRANT (Vice-President, Finance Dept.): The market at the time we put out this issue on December 1 last year of \$35,000,000 was against us. We would have liked to put out more than that amount, but the market, both here and in the United States, the underwriters told us, and it proved to be a fact, would not take more than \$35,000,000.

Mr. McLEAN: Except at a price?

Mr. GRANT: Except at a price.

Mr. McLEAN: What would you have had to pay?

Sir HENRY THORNTON: It would have gone on to nearly 6 per cent.

Mr. GRANT: I might mention, in connection with our equipment, that we got tenders and the price was approximately  $5\frac{3}{4}$  per cent; but that was not sold.

Hon. Mr. DUNNING: It should be made clear that that was not sold.

Mr. GEARY: What does that  $4\frac{1}{2}$  per cent represent as an interest charge to you?

Mr. GRANT: 4.82.

Mr. GEARY: I suppose if you tried to put out an issue when call money the other day in New York was 25 per cent you would not have got a very good price.

Hon. Mr. DUNNING: We thought that was a very good sale.

Mr. GEARY: I suppose I am right in this that if you got rid of all this government debt you would have been \$7,000,000 to the good?

Mr. COOPER: Yes.

Sir HENRY THORNTON: Of course that is what governs the whole of it.

Hon. Mr. DUNNING: I am looking for ideas. Do you suggest they should cancel that?

Mr. GEARY: No. If I knew as much as you know about it, perhaps I would.

Mr. McLEAN: That is not actually transferred to the Government but you hold that in accounts?

Mr. COOPER: That is right.

The CHAIRMAN: That disposes of the Income Statement. Shall we go now to Expenditures and Equipment, page 23?

Mr. GEARY: I would suggest that this would be a good place to stop.

Sir HENRY THORNTON: The next item is the Railway Operating Revenues and Expenses.

Mr. GEARY: We have done that.

The CHAIRMAN: Shall we go through the Expenditures applicable to investment in Road and Equipment?

Mr. GEARY: We either should take it up now or at another time, if it is going to take much time.

The CHAIRMAN: Does the Committee think we should go through the details on this account shown at page 23?

Mr. McLEAN: I think we might as well.

The CHAIRMAN: Very well, page 23.

Sir HENRY THORNTON: This, you understand, represents the additions to capital classified in the various items which you find on page 23.

Mr. GEARY: Yes, and a very inadequate amount for Law. You have only paid that unfortunate profession some \$12,000.

Hon. Mr. DUNNING: I do not want to find fault with the accounting staff, but if they give the impression that that is all the lawyers got last year, I want to dissipate that idea right now.

Mr. GEARY: Of course, if you buy a piece of real estate, I suppose the legal expenses would go to capital account.

Hon. Mr. DUNNING: For the purpose of getting on, I would suggest to the Committee that we plan tomorrow's work, as it is rather difficult to have all the officers around at the one time. If we are through with this question, would it be the desire of the Committee to take up the Merchant Marine, or to take up the Estimates? Or would you desire to finish up all the accounts before touching the Merchant Marine?

Mr. GEARY: I think that would be better.



Hon. Mr. DUNNING: Can we agree that we are through with these accounts? I can see no more in them myself.

The CHAIRMAN: I think we have already dealt with this in our analysis, and we have gone through the report more carefully than we usually did in the past.

Sir HENRY THORNTON: While waiting, may I make this suggestion for the consideration of the Committee, in order that we may get on with some important matters which are being held up, that the Committee authorize say 25 per cent of the Budget? Do you think that will be enough, Mr. Henry?

Hon. Mr. DUNNING: Mr. Robb does that. If there is any objection on the part of the Committee it may be an important matter. Nothing has been voted yet for the Canadian National, and it is rather important. I do not anticipate any objection from any quarter for the sixth, which will bring it into line with what the government will require for its own purposes, in a day or two, an additional sixth of the Budget, \$55,000,000.

Mr. GEARY: I do not think there is any need for our making any interim appropriation for interest.

Hon. Mr. DUNNING: As I understand the rule the one-twelfth or one-sixth, as the case may be, the general understanding is, and I do not think there is any written rule about it, that the proportion is that one-twelfth of the whole is allocated as one-twelfth of each vote. You notice that when the Chairman of the Committee reads the vote out he reads one-twelfth of the estimates which have been tabled.

Mr. GEARY: As far as the National Railways go, this is all one vote.

Hon. Mr. DUNNING: Yes, \$53,000,000. These estimates have been tabled and referred to this Committee.

Mr. GEARY: 25 per cent might cover all the money which the system is paying out to the public. Supposing of the \$53,000,000 a quarter of it was the interest payable to the public, that might cover the expenses which we desire to look into.

Hon. Mr. DUNNING: No, there is no separation.

Mr. COOPER: There is no net provision in the Budget for interest.

Mr. POWER: All these votes are without prejudice to any objection which may be taken.

Mr. GEARY: Oh, I have no objection. Do you want to have anything further about the Eastern Lines, Colonel?

Mr. CANTLEY: No.

Hon. Mr. DUNNING: It would not be very convenient to answer some questions unless the officers were here.

Sir HENRY THORNTON: Do I understand now that you are through with the Canadian National Railways?

The CHAIRMAN: Yes. Will somebody move the adoption of the report?

Mr. GEARY: Would you leave that over until tomorrow, as Mr. Stevens and others have taken quite an interest in it?

The CHAIRMAN: Then we will take that up tomorrow, and also the Merchant Marine estimates. We will meet tomorrow at 11.

The Committee adjourned until Wednesday May 1st, 1929 at 11 a.m.





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Canada, Railway and Shipping  
in Standing Order 1929

SESSION 1929

HOUSE OF COMMONS



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SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7—WEDNESDAY, 1st MAY, 1929

## WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. D. O. Wood, Acting General Manager, Canadian Government Merchant Marine.

Mr. J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine.

OTTAWA

F. A. ACLAND

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1929





## MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

COMMITTEE ROOM 375,

WEDNESDAY, May 1, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Cantley, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

*In attendance:* Sir Henry Thornton, President, Canadian National Railways, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Sir Henry Thornton supplied answers to questions asked at the last meeting of the Committee.

Sir Henry Thornton made a statement in which he drew a parallel between the condition of the Canadian National Railways during the last few years and that obtaining on American railways, west of the Mississippi river, following the Civil War.

### ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

On motion of Mr. Geary,—

Resolved, That the report be adopted.

### TENTH ANNUAL REPORT OF CANADIAN GOVERNMENT MERCHANT MARINE

The report addressed to the Minister of Railways and Canals, as contained on pages 4 and 5, was read by Sir Henry Thornton, and a general discussion ensued.

At 12.55 p.m., the Committee adjourned until to-morrow, 2nd May, at 11 a.m.

JOHN T. DUN,  
*Clerk of the Committee.*





MINUTES OF EVIDENCE

HOUSE OF COMMONS,

COMMITTEE ROOM 375,

WEDNESDAY, May 1, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Let us come to order. I think, Sir Henry, you had a statement to make this morning.

Sir HENRY THORNTON: There were one or two questions asked yesterday. Mr. Stevens asked yesterday what securities have been issued and sold from January 1, 1923, to date and what maturing securities have been paid off. Give also the total in each case. The answer is as follows: —

Total of securities issued since January 1, 1923, was \$284,663,256.60.  
Total securities matured and paid off since January 1, 1923, was \$102,611,-367.72. There also has been an increase in sinking funds during the period of \$13,103,218.40.  
Details of new securities and retirements of securities as follows:—

CANADIAN NATIONAL RAILWAYS

DETAILS OF NEW ISSUES 6 YEARS TO DECEMBER 31, 1928.

Guaranteed Issues	Date of Issue	Amount of Issue
5% Equipment Trust Series "G".....	Aug. 1st, 1923.....	\$22,500,000 00
5% 30 Year Bonds.....	Feb. 1st, 1924.....	50,000,000 00
4% 3 Year Gold Notes.....	July 1st, 1924.....	20,000,000 00
4½% 30 Year Gold Bonds.....	Sept. 15th, 1924.....	26,000,000 00
4½% 10 Year Gold Bonds.....	Feb. 15th, 1925.....	17,000,000 00
4½% 5 Year Gold Bonds.....	Feb. 15th, 1925.....	18,000,000 00
4½% 30 Year Gold Bonds.....	July 1st, 1927.....	65,000,000 00
4½% 40 Year Gold Bonds.....	Dec. 1st, 1928.....	*35,000,000 00
Total Guaranteed Issues.....		\$253,500,000 00
Unguaranteed Issues		
4½% Equipment Trust Series "H".....	July 1st, 1924.....	9,375,000 00
Can. Nat. Realties Land Mortgages.....	Various.....	951,000 00
4½% Equipment Trust Series "J".....	May 1st, 1927.....	15,000,000 00
4½% First Mortgage 30 Year Sinking Fund Gold Bonds (N.T.R. Branch Lines).....	Dec. 23rd, 1927.....	3,396,000 00
Indebtedness to State of Michigan.....	Various dates, 1928.	2,441,256 00
Total Unguaranteed Issues.....		\$31,163,256 60
Grand Total of New Issues.....		\$284,663,256 60

\* Total issue of \$35,000,000 included, although \$8,666,000 was not actually issued until January 3rd, 1929.





Sir HENRY THORNTON: Mr. McLean (Melfort) asked what was the number of foreign cars on system lines and the number of system cars on foreign lines during the peak period. The answer is as follows:—

The maximum peak period in freight car demand was in the fortnight centering on November 15. The car situation in that period was:—

Total cars on line.. . . .	144,820
Made up of—	
Cars owned by system.. . . .	119,026
Less owned cars on foreign lines .. . . .	17,480
	<hr/> 101,546
Cars owned by other railways .. . . .	38,254
Private cars .. . . .	5,020
	<hr/> 144,820

For the period from August 15 to December 15, car demand was above the average for the year. The average car situation in this period was:—

Total cars on line.. . . .	140,118
Made up of—	
Cars owned by system.. . . .	119,275
Less owned cars on foreign lines .. . . .	17,046
	<hr/> 102,229
Cars owned by other railways .. . . .	33,006
Private cars .. . . .	4,883
	<hr/> 140,118

Sir HENRY THORNTON: The word “foreign” in connection with transportation means some other railway than the one under discussion. For instance, we would regard the Canadian Pacific as a foreign railway, meaning apart from our own railway. The word “foreign” has no national significance.

Colonel Geary asked: How do you explain the decrease in interest on government advances of approximately \$8,000 shown in account 546A? The answer is as follows: The accounts for 1928 compared with the accounts for 1927 show a decrease of \$9,664.06 under account 546A—“Interest on Government Advances.” There was a decrease of \$11,767.24 brought about by the separation of the total interest computation as between Canadian National and Eastern Lines, but this was partly offset by certain accounting adjustments made in the allocation of the loan account between corporations. If the amounts shown for Canadian National and for Eastern Lines are added together, the combined total for 1928 is \$32,507,336 and for 1927 \$32,505,233, a difference of only \$2,103.

Sir HENRY THORNTON: Mr. Chairman and gentlemen of the Committee: If it meets with your approval, there is a short statement I would like to make, which I think perhaps will be illuminating and useful. It relates to the financial history, if one may call it such, of the Canadian National Railways as compared with the railways in the United States west of the Mississippi river. I will try to make this statement as brief as possible, because I think it is of some interest.

When we come to regard the Canadian National Railways as a separate corporation, and review its financial history, we are very apt to feel somewhat appalled at the amount of money which has been spent on the property, and have some considerable doubt as to the wisdom of the policy that was followed. Some perhaps even to-day have doubts as to the ultimate financial security of the Canadian National Railways system.

Now, in regarding things of this sort it is sometimes useful to have something of the nature of a yardstick to measure it with, and also to have some regard for the experiences of other things of a similar nature elsewhere. Therefore, while I am not attempting to make any precise comparison between what has happened with respect to the Canadian National Railways system and what has happened to the railways of the United States west of the Mississippi river since the Civil War, at the same time there is a certain comparative aspect which, when it is examined, puts our own position in a rather more encouraging light than might be the case if we examined it without reference to similar experiences elsewhere. I am comparing with the territory west of the Mississippi river because from a geographical, traffic and development point of view it is measurably similar to the situation which has confronted us in Canada, particularly west of the Great Lakes. We find that in the territory in the United States, to which I refer, and in the period under consideration, there have been 191 reorganizations of railway properties. We find that \$874,000,000 have been eliminated—lost, in those reorganizations and securities to the amount of \$1,141,000,000 were stepped down from a superior to an inferior position in the reorganization. If those losses were subject to interest—as has been the case with our own deficits because we are charging interest at 6 per cent on our deficits—the total figure which might be considered comparable to the deficits of the Canadian National Railways and its liability to the government, would run into a colossal figure—I think it is \$3,250,000,000.

In other words, what happened in the United States was that it was a loss which was borne by the investors—by the public. In Canada the government for good and sufficient reasons stepped into the breach and carried the burden, which, as I said, in the United States was carried by the public, so that whatever may have been the mistakes and whatever may have been the history of the Canadian National Railways in the past, it is not materially different from what has been experienced elsewhere, and comparatively is probably better—

Mr. JELLIFF: What is the comparative mileage involved?

Sir HENRY THORNTON: I was going to mention that a little later, but since you have asked the question I will say that it is 125,000 miles.

Hon. Mr. STEVENS: West of the Mississippi?

Sir HENRY THORNTON: Yes, only west of the Mississippi. Now, there are facts which I think will be of interest to you. The receivership history of those railways shows that in 1875 and 1876, 12 per cent of that mileage was in receivership. If you come down to the period of 1892, and as late as 1894, 29.4 per cent—nearly 30 per cent—of the railway mileage west of the Mississippi river in the United States was in receivership. Again, in 1916, 20.4 per cent of the mileage in the territory we are discussing was in receivership—even so late as 1916.

Now, we hear a good deal about the assistance which has been given to Canadian railways by the governments in the land grants of different sorts. We find that very much the same policy was pursued in the United States, and that the United States Government gave to its railways west of the Mississippi river lands which were ultimately sold for \$410,000,000. That is exclusive from state grants. If you include state grants you find that it adds up to about \$225,000,000 in addition to the figures I have given you, which represent assistance from the states, corresponding to assistance given by the provinces here.

Now, here is a curious situation. Commencing with 1860 we find that the population per mile of railway west of the Mississippi river was 1,724.

Hon. Mr. STEVENS: In 1860?

Sir HENRY THORNTON: In 1860, when one may say that railway construction west of the Mississippi river commenced. In 1870 it dropped to 596 souls



per mile of line; in 1880 it dropped to 365; in 1890 to 242; in 1900 to 249; in 1910 to 239; and in 1920 the population per mile of railway was represented by 262. Since that time it has climbed up.

Hon. Mr. STEVENS: How does that compare with ours?

Sir HENRY THORNTON: I do not know. I have not the figures, but I can get them.

Mr. FAIRWEATHER: Roughly speaking, it is about 200 people per mile in Canada.

Hon. Mr. STEVENS: In the west it would be less?

Sir HENRY THORNTON: Yes. Now, we find from 1860 to 1920 the population of the western states increased from 5,312,000 to 35,355,000, and that increase of course, as you would naturally expect, took place rapidly in the latter years, more so than in the earlier years. In other words, the western part of the United States suffered a period of over-building—if you want to call it such—of railway mileage, and it was not for some decades that the advancement in population overtook economically the construction of that mileage. Furthermore, that increment in population would not have taken place had the mileage not been built, and had not the public and the investors stood their losses during the development period.

The only point about that is, when you come to compare it with Canada, our position is about the same, or if different at all it is a little better. I think we are getting our results more quickly than was the case in the United States.

Mr. HANSON: Is that not due to the fact that we produce more in Canada?

Sir HENRY THORNTON: Undoubtedly, but the real point is that in order to develop a country railway mileage must be built for that purpose, and there is a certain period in which that mileage will not be profitable. Those who have provided the capital for the construction of such mileage have to wait until the population overtakes the railway.

The CHAIRMAN: Are there any other questions to ask of Sir Henry?

Hon. Mr. STEVENS: You wanted to close up this report.

The CHAIRMAN: We just postponed closing it while you were absent yesterday.

Hon. Mr. STEVENS: I do not think I have any further questions to ask.

Mr. GEARY: Mr. Matthews told us something of the methods of auditing, and I understood him to say that these accounts were all of your set up.

Mr. COOPER: That is so.

Mr. GEARY: And the balance sheet also?

Mr. COOPER: Absolutely; everything in that report.

Mr. GEARY: And they take your set up and work back from that as far as they like?

Mr. COOPER: As far as they wish, until they are satisfied that they can give that certificate.

Mr. GEARY: I was going to ask you regarding your idea of this certificate. Anyone who knows this firm of Touche & Company knows they are thoroughly responsible people, and no one will suggest they are not thorough and exact, and Mr. Matthews, to my knowledge, is a most excellent accountant. Do you think they could produce any more correct results or more understandable accounts?

Mr. COOPER: I would say that it would be absolutely impossible for them to construct that balance sheet.

Mr. GEARY: You do not think any accounting firm could do that?

Mr. COOPER: We have about 2,400 people in the accounting department, and if they were going over the work as we go over it, they would also need about the same number.

Mr. HANSON: Then it is not an impossibility, but simply a question of the magnitude of the task.

Mr. COOPER: Why should they? The purpose for which we are paid by the Canadian National is to do this particular work. Why get in an outside firm at a higher price to do what we are paid to do?

Mr. GEARY: Their function is to check back as far as they think necessary?

Mr. COOPER: Yes. They watch our work during the year; they understand our practices; they discuss our theories, and when we come along at the end of the year with an income statement and a balance sheet, we ask them to certify that it is correct, in their judgment.

Sir HENRY THORNTON: They must take the necessary steps to be able to certify or refuse.

Mr. GEARY: But the items which go into the balance sheet are subject to their consideration as to whether or not they are properly in?

Mr. COOPER: Yes.

Mr. GEARY: And they take items on both sides of the sheet and check back?

Mr. COOPER: I would not say just what they do.

Mr. GEARY: They are paid by the Canadian National Railways?

Mr. COOPER: Yes.

Mr. McLEAN (Melfort): They carry it on continuously; it is not just at certain times of the year?

Mr. COOPER: They have a few men in the office all the year round, checking up capital expenditures, and at the end of the year they bring in some extra forces. It is the same practice which goes on in every industry.

Mr. GEARY: It is really just a checking up of your reports?

Mr. COOPER: Yes. There are some industries which do not employ an accounting staff to make a proper balance sheet, and sometimes a chartered accountant is asked to do that, but not in our case.

Mr. GEARY: So it is impossible for these outside auditors to do more than take your set up and check back from it to satisfy themselves?

Mr. COOPER: Yes; I would not hesitate to say that.

Mr. GEARY: It adds nothing to the correctness of the sheet, but increases the promptness with which it may be received.

Mr. COOPER: No; I think it rather adds confirmation to it. If you have two independent people going over one set of accounts and reaching the same conclusions as to its correctness, it adds confirmation.

Mr. GEARY: Are these retained by the government, Mr. Minister (Hon. Mr. Dunning)?

Hon. Mr. DUNNING: No.

Sir HENRY THORNTON: They are retained by the railway company as is the case with any private firm.

Mr. GEARY: Does the government step in at all on the check-up?

Hon. Mr. DUNNING: There is our own finance department check-up, and the railway comptroller's branch check-up as to the relationship between the two.

Mr. GEARY: You do not profess to touch the balance sheet?

Hon. Mr. DUNNING: No, but if it is an important item, I think Mr. Cooper would have a reconciliation of the railway accounts on the one hand and the government accounts on the other.

Mr. COOPER: We always make that reconciliation between our records and the departmental records.

Mr. HANSON: That is only one phase of the situation.



Mr. COOPER: Yes; we reconcile our accounts with banks and with trust companies wherever we have an account which should be confirmed by the creditors of the railway. We have those confirmations, and we submit those certificates to Touche & Company. I think they also get independent certificates in some cases.

Mr. GEARY: How far back does your accounting department go?

Mr. COOPER: We have complete control of all the accounts.

Mr. GEARY: Are your employees all at the head office, or are they distributed amongst the various offices?

Mr. COOPER: We have them in the head office, the regional offices, the offices of the subsidiary companies, and even in the offices of the shops.

Mr. GEARY: And your department attends to the confirmation of all payments, no matter how small?

Mr. COOPER: Our treasury department cannot pay a voucher unless there is a certificate from the accounting department that it has been audited and found correct.

Hon. Mr. DUNNING: I think I did not quite catch your question at first, Mr. Geary. So far as the outside auditing firm is concerned, the government initiated that when the railway was put together as a matter of necessity.

Mr. GEARY: You cannot get a more responsible firm than Touche & Company.

Hon. Mr. DUNNING: The theory was to get a firm of outside auditors to do two things: to ensure that the system followed by the railway was such as to give an accurate picture of the results, and also to make such tests of the various accounts with particular reference to the capital account, which they check completely, so as to ensure that the system followed is a sound one, and also to enable them to certify to the balance sheet as being correct. As to how far they shall go is entirely in their own hands.

Mr. GEARY: My question was directed as to whether the government or the system should retain them.

Hon. Mr. DUNNING: The system retains them and pays them.

Sir HENRY THORNTON: I do not think it makes any difference provided they remain, as in this case, above reproach.

Mr. HANSON: I agree with that. We have had long years of experience with this same firm and have found them most satisfactory.

Sir HENRY THORNTON: I would like to ask one question. I do not want to put a wrong construction on the questions which have been asked, but at the same time I am personally responsible for the accuracy and honesty of our accounts and operations. The various other officers share that responsibility to a degree, but if anything goes wrong I can very quickly see my finish. Now, I want to ask this question, whether in the mind of any member of this Committee there is any doubt or suspicion as to the honesty or fidelity with which the previous accounts have been prepared and rendered. If there is any suspicion I want the fullest and most complete investigation.

Mr. GEARY: There cannot be, because we have your own excellent staff with an outside firm checking it up. If there is anything of that sort it would be a special instance which would be brought out.

Mr. HANSON: There is certainly no suspicion from the gentlemen on this side of the House which would lead you to make such a statement.

Sir HENRY THORNTON: I did not make the statement and I did not ask the question in any contentious spirit, but to see if anyone perchance had any suspicions—and sometimes suspicions do exist—and if any one had the slightest suspicion I want to know about it right now.

Mr. GEARY: That would only come up in connection with an individual item. Our questions have only been asked so that the public will know what is going on.

Sir HENRY THORNTON: My question was not asked in a spirit of criticism or contention.

Mr. McLEAN (Melfort): All the questions have been asked for information, so that the Committee may understand the system better, and the public, through the Committee's report, can better understand the situation.

Sir HENRY THORNTON: I would rather answer ten unnecessary questions than let one go by which ought to be answered. I would like to have more questions rather than a less number.

Mr. GEARY: In order to have the public confidence, I am sure you are glad to answer any questions.

Hon. Mr. DUNNING: It also has the value of giving the Committee a greater education in railroading.

Sir HENRY THORNTON: I think it is profitable both ways; certainly I have profited.

Mr. GEARY: As far as the accounting department goes, a great many questions have been asked concerning which the department has been able to give complete information and has made understandable replies.

Sir HENRY THORNTON: I have noticed, with the passing of the years, with a great deal of satisfaction, the improved relationship between the House of Commons as a whole and the railway, and between this Committee and those who sit on this side of the table, and to-day all of our officers look forward with pleasure to meeting this Committee instead of looking at it as an unpleasant inquisition.

Mr. GEARY: That does not say if there is any suspicion to be raised about anything that you may not expect it to be raised as thoroughly as it can be.

Sir HENRY THORNTON: I want it to be raised every time. I want nothing concealed, because our only defence is honesty and frankness.

Mr. HANSON: I would not like to go on record as supporting Mr. Geary without reserving my opinion as regards public ownership. We are committed to public ownership in the case of the National railways, and every one of us wants to see it succeed, but in regard to that principle being applied to everything, I want to make my position clear that I am not as whole-heartedly in support of it as is Mr. Geary.

Hon. Mr. DUNNING: Could you two gentlemen (Messrs. Geary and Hanson) not agree that so far as public ownership applies to the Canadian National Railways system, you are both behind it. It is the only thing to do at the present time. That, I think, will be common ground.

Mr. HANSON: I might go that far. I think it was brought into public ownership because there was no other way out.

Mr. McLEAN (Melfort): It is a case of it being here, and we must make the best of it whether we like it or not.

Sir HENRY THORNTON: If this thing continues there will be only one political party in Canada.

The CHAIRMAN: It will degenerate into a society of mutual admiration. I think probably Mr. Stevens would also become a member. Will some one move that the annual report of the Canadian National Railways system be adopted?

Mr. GEARY: I will so move, Mr. Chairman.

Mr. McLEAN (Melfort): I second that motion.

(Carried.)



The CHAIRMAN: We will now proceed with the tenth annual report of the Canadian Government Merchant Marine. Will you proceed, Sir Henry?

Sir HENRY THORNTON: This is the tenth annual report of the Canadian Government Merchant Marine. The accounts as certified by the auditors show decreases of \$1,121,453 in operating revenues; and of \$633,106 in operating expenses. The net operating loss was \$1,209,083 as compared with a corresponding loss in 1927 of \$720,735.

The operating ratio for 1928 was 113.27 per cent as compared with 107.04 per cent in 1927.

After debiting \$2,431,315 for depreciation and \$3,905,126 as representing interest on Government notes and advances, the total nominal loss for the year was \$7,545,525 as compared with \$7,086,939 in 1927.

Generally speaking the adverse showing was due to reductions in rates, to increased competition on certain routes as well as to the strike at Antwerp during the summer months and the continued reduced buying power in South Wales due to the limited coal mining operations. Owing to these unfavourable conditions a comparison of the actual earnings in 1928 and 1927 does not reflect the true position.

Study is being given to the reorganization of certain services looking to securing better results in future.

The only accidents to report are the grounding of the *Canadian Mariner*, and collisions met with by the *Canadian Explorer* and the *Canadian Rover*.

In connection with the West Indies services, arrangements are being made to transfer seven vessels of the fleet from the company's accounts to those of the Canadian National (West Indies) Steamships, Limited.

The three new vessels for the West Indies Service Eastern Route, namely, *Lady Nelson*, *Lady Hawkins* and *Lady Drake*, were delivered by the builders in 1928, the first two named steamers sailing from Halifax on December 12th and 28th respectively. As neither of these steamers completed a voyage in 1928, the voyage results will be included in the West Indies Company report for 1929.

The two steamers intended for the Western Route, namely, *Lady Somers* and *Lady Rodney*, have just been delivered. When they commence operating Canada will have fulfilled her obligations as regards the provision of steamship services under the West Indies Trade Agreement of 1925.

The maximum number of directors has recently been increased to correspond with the directorate of the Canadian National Railway Company; with the result that in future the boards of the two companies will be identical. The enlarged board is shown in this report.

The directors have pleasure in recording their appreciation of the satisfactory service and continued loyalty of the company's officers and employees both afloat and ashore.

The CHAIRMAN: Shall we now go on with the consideration of the balance sheet?

Mr. HANSON: There are one or two matters arising out of the report. Will the new corporation of the Canadian National (West Indies) Steamships, Limited, be a subsidiary of this company, or what is your corporate layout?

Sir HENRY THORNTON: It is a separate company, from a corporate point of view.

Mr. HANSON: Is it a subsidiary of this company?

Sir HENRY THORNTON: For convenience it will be included in the report of the Canadian Government Merchant Marine, but it has a separate corporate identity.

Hon. Mr. STEVENS: Who owns the stock?

Sir HENRY THORNTON: The Government owns all of it.

Mr. HANSON: It is really a second steamship company, but for a common purpose it will be handled as you suggest.

Sir HENRY THORNTON: Yes.

Mr. HANSON: What is the gross cost to the company of implementing the provisions of the West Indies Trade Agreement of 1925, in so far as it relates to the capital expenditures of these steamers?

Mr. COOPER: Order in Council 433 authorizes us to borrow \$9,500,000 against the capital expenditures of the West Indies Services.

Mr. HANSON: That is your enabling authority?

Mr. COOPER: Yes.

Sir HENRY THORNTON: How much have we invested already, Mr. Cooper?

Mr. COOPER: The cost of the five "Lady" boats is approximately \$8,084,000.

Mr. HANSON: In addition to that, you will use, will you not, some of the other ships, or do these five ships cover the whole route?

Sir HENRY THORNTON: No; there will be some additional ships.

Mr. COOPER: The *Canadian Aviator* is to be converted; the cost of that conversion is \$351,000.

Mr. HANSON: Without taking anything into account for the book value of the ships.

Sir HENRY THORNTON: If you look on the last page of the report you will see at the bottom seven ships with their deadweight tonnage, which are to be employed in connection with the new West Indies service.

Mr. HANSON: I want to know what the cost to the country will be for those seven ships, to be converted, so that we will know how much money we have invested in carriers for this West Indies service. I do not expect an answer to that now.

Mr. COOPER: Taking the original book cost of the present ships in the Merchant Marine, they would simply have to be written down to a depreciated figure, to which would be added the cost of conversion, to enter into the new steamship setup.

Mr. HANSON: You write off every year so much for depreciation?

Mr. COOPER: We do not write off the cost of the vessels, no. We set up a depreciation reserve. It is entirely a bookkeeping entry. We do not reduce the book value of the vessels themselves.

Mr. HANSON: You set up a reserve?

Mr. COOPER: Yes.

Mr. HANSON: And the difference is the net?

Mr. COOPER: I thought you said you reduced it, and I was correcting that point.

Mr. HANSON: The practical effect is to reduce the book value?

Mr. GEARY: That would not go into the transfer of book values, because there will be a credit to your depreciation reserve.

Mr. HANSON: And the net is the present cost of those ships so transferred.

Mr. HENRY: \$25 per ton is the value at which they have been tentatively taken in.

Hon. Mr. DUNNING: It would be unfair to take them in at anything like the original cost, less ordinary depreciation.

Mr. HANSON: Probably so, because they were built at war prices. What I am trying to get at is about how much money, in millions—that will be close enough for me—we are going to invest in this service.



Hon. Mr. DUNNING: Including the cost of transferring the boats.

Mr. HANSON: And the conversion.

Mr. COOPER: It will be \$9,500,000.

Mr. HANSON: You have spent \$8,000,000 for the new ships, and it costs \$350,000 to convert each one of these other seven?

Mr. COOPER: No, just two. The *Aviator* and the *Hunter* will be converted. The make-up of that \$9,500,000 is: \$8,084,000 for the five new ships; the *Aviator* was converted at a cost of \$351,000, and Wahl and Company, naval architects, of London, England, placed a value on the vessel after conversion, of \$425,000, so I am putting in \$425,000 for that ship.

Mr. HANSON: Without anything for this \$25 per ton to which Mr. Henry referred.

Mr. HENRY: Approximately \$25 per ton.

Sir HENRY THORNTON: It is the cost of conversion plus about \$25 a ton.

Mr. HANSON: You are putting her in at a valuation of \$425,000.

Mr. COOPER: Yes. The same with the *Hunter*.

Mr. GEARY: I did not quite catch that. That is not \$25 per ton on the *Aviator* and \$350,000 for conversion, with your present valuation of \$425,000.

Mr. COOPER: I am putting the value placed on the vessels by Wahl and Company, and they said that they were worth \$425,000 after conversion.

Mr. HENRY: Apparently in that case they have put a little lower valuation.

Mr. COOPER: The *Carrier*, *Otter*, *Runner* and *Volunteer* each go in at \$114,000, which is \$25 per ton. There is no conversion there.

Mr. CANTLEY: What about the *Sapper*?

Mr. COOPER: I put that in at the same figure.

Mr. HANSON: There is \$8,000,000 for the *Lady* vessels, and seven, of the boats go in on a valuation made by the naval architects. Give the ships and the amounts, and we can get the gross in that way.

Mr. COOPER: For the five *Lady* boats, \$8,084,000; for the *Aviator*, \$425,000; for the *Hunter*, \$425,000; for the *Carrier*, \$114,000; for the *Otter*, \$114,000; for the *Runner*, \$114,000; for the *Volunteer*, \$114,000; and for the *Sapper*, I would say, \$250,000.

Mr. HANSON: She was one of those which had been converted?

Mr. COOPER: She was converted and the cost of conversion was \$180,000. As I say, she goes in at \$250,000.

Hon. Mr. DUNNING: These figures are all approximate?

Mr. COOPER: Yes. I think as far as the four ships at \$114,000 each are concerned that has been tentatively agreed to, but as far as the two ships at \$425,000 are concerned, I do not think there has been any agreement on that as yet.

The CHAIRMAN: What is the total of the figures you read?

Mr. COOPER: About \$9,750,000.

Mr. HANSON: What other capital expenditure will be required before the Canadian National (West Indies) Steamships, Limited, is a real going concern, or is there any other capital?

Mr. COOPER: I do not know of any other.

Sir HENRY THORNTON: I do not know of anything else.

Mr. HANSON: Unless you are building docks in the West Indies, for instance.

Sir HENRY THORNTON: We have not embarked on that.

Mr. HANSON: Or hotels—such as the *Constant Springs*.

Sir HENRY THORNTON: That is a United Hotel proposition.

Mr. CANTLEY: I suppose you are supplying additional refrigerator cars to take care of this fruit traffic?

Sir HENRY THORNTON: That is not included in this.

Mr. CANTLEY: You probably will have more cars than you otherwise would have, to take care of this traffic?

Sir HENRY THORNTON: Probably.

Mr. McLEAN (Melfort): Could these ships be sold at about this price?

Mr. COOPER: I cannot answer that.

Mr. WOOD: Well, I think if these ships were fixed up and in shape they should bring at a sale probably in the neighbourhood of \$35 to \$40 per ton, in good shape.

Mr. McLEAN (Melfort): Before being fixed up?

Mr. WOOD: Before they were fixed up they would bring, I should think, probably \$25 a ton.

Mr. HANSON: However, this is but an arbitrary figure between the two government departments.

Hon. Mr. DUNNING: There is a rather important factor into which I need not go at this time. We have not got the ships at these figures yet.

Mr. GEARY: How will it affect the balance sheet?

Mr. COOPER: It will be a separate balance sheet. The capital stock of the West Indies company will be held by the government, but it will not appear in the Merchant Marine balance sheet; it will be a separate balance sheet.

Mr. HANSON: You will have to make some deductions for 1927.

Hon. Mr. STEVENS: Treat them as railway cars, and write off the original?

Mr. COOPER: We certainly shall.

Mr. McLEAN (Melfort): You would treat them as you would any other ships sold?

Mr. COOPER: We would reduce the Merchant Marine Investment Account by the amount presently carried in respect of these vessels. The capital stock and Government Note Liability would be reduced by the same amount. The Depreciation Reserve and the Government Interest Account would be reduced by the amounts included therein applicable to these vessels.

Hon. Mr. STEVENS: And the amount you get for the vessels will be credited?

Mr. COOPER: It will be credited against the net liability held by the government in respect of the original advances for the vessels.

Hon. Mr. STEVENS: Can you give us an idea of what that will mean—within a few dollars?

Sir HENRY THORNTON: It cannot be done in "a few dollars."

Hon. Mr. STEVENS: Quite a few.

Mr. GEARY: You write them out of book cost, but you do not take them in at book cost.

Mr. COOPER: That will be shrunk out of the public accounts somewhere; except that it is already out of the public accounts and is now represented in the net debt.

Hon. Mr. DUNNING: A non-active asset.

Mr. COOPER: Yes, it is charged in the debt at the present time.

Hon. Mr. STEVENS: Your profit and loss deficit will be affected.

Sir HENRY THORNTON: These ships will cost us roughly about \$1,000,000 apiece.

Mr. MILNE: What does a new "Lady" ship cost per ton?

Mr. WOOD: 6,700 dead tons—

Mr. COOPER: It would be a little less than \$200 a ton.



Sir HENRY THORNTON: You must remember that those were not only passenger ships, but also fitted with some very expensive refrigerating machinery. They are a special type of ship.

Mr. CANTLEY: What is the character of the reconditioning you put into these seven ships, which are transferred to the railroad direct?

Mr. DOHERTY: There are two steamers, the *Canadian Aviator* and the *Canadian Hunter*, which have been fitted to carry bananas, so that we shall have four steamers, the two passenger boats, and the two freight boats, giving us a weekly service as between Canada and Jamaica. The *Canadian Sapper*, which makes the third, operates as between Kingston, Jamaica, and Belize, as a connecting steamer, so that Belize will be taken care of in the service as in the past. The other four steamers, the straight freight boats, have had no alterations and will carry on as straight freight carriers.

Mr. JELLIFF: Could you give us an idea of the prospects for this new field, as to whether it is going to be a profit making or a loss taking proposition?

Sir HENRY THORNTON: That is not altogether an easy question to answer. These ships, in their inception, were built to comply with certain provisions of treaties negotiated between the West Indian governments and Canada. As far as prospects are concerned, I should say that ultimately the prospects ought to be as good as we originally estimated them to be. Now, of course, much depends on the banana product in the West Indies, and much also depends upon the marketing conditions in Canada. Also much depends upon what development takes place in the West Indies. I believe that there is a considerable future ahead of the British West Indies government after this service is provided and the instrumentality is brought into existence which will enable producers not only to market what they produce in the West Indies, but will also encourage them to produce more and better fruits and vegetables and products which are susceptible of consumption in Canada, and there will have to be developed better methods, not only of raising fruit, but in sorting and packing it, and in that respect we will have to co-operate with the West Indian governments for the purpose of assisting them in promoting further production in the West Indies. To a certain extent it is a good deal like a railway being built into a new country. That country already has certain productive capacity, but by wisdom and energy the productive capacity can be increased. There will have to be a certain degree of co-operative missionary work done in the West Indies. Personally, I do not think the West Indies are producing either as much or as good a character of product as will ultimately be possible. To some extent, when you ask me what will be the possibilities of our West Indian service I should say it is an adventure, an adventure which will, if it is going to develop into a productive reality, require study and thought and vision and co-operation between the producing instrumentalities in the West Indies and the West Indian governments. A fair proportion—perhaps even a large proportion of West Indian production is going to the United States, and probably a fair proportion of materials and commodities of different sorts which are used in the West Indies are in turn purchased in the United States. It will be our objective to try and divert both of those in favour of Canada.

Mr. HANSON: Has not the United Fruit Company started a competitive service to Canada?

Mr. WOOD: They have started a service to St. John. I understand it will be in operation in the winter.

Mr. HANSON: But they have started?

Mr. WOOD: No, but I believe they will early in May.

(After a statement by Sir Henry Thornton).



Mr. JELLIFF: Does the Department of Trade and Commerce see to it that we are well represented in working up business for this trade?

Sir HENRY THORNTON: That is a question which I cannot answer. I do know that the Department of Trade and Commerce has certain trade commissioners in the West Indies, but just what the present position is I do not know.

Mr. JELLIFF: There must be a lot of missionary work to be done down there.

Sir HENRY THORNTON: We have only lately selected the best man we could find as general traffic representative in the eastern group of West Indian governments. He has just left. We are relying upon him to make a careful study of the whole situation and to advise us fully with respect to methods and means which we may adopt to increase production and consequently traffic to and from the West Indian islands. We propose to send a similar man to the western group very shortly, and as far as the railway is concerned we propose to conduct an active and aggressive campaign in the British West Indies for increasing our trade.

Hon. Mr. DUNNING: In connection with that, you might mention the other matter?

Sir HENRY THORNTON: In view of our relations with the United Fruit Company and other considerations, I would like that this be left out of the minutes.

The CHAIRMAN: Leave it out, please.

(Discussion followed.)

The CHAIRMAN: Shall we go on with the balance of the sheet, item by item?

Mr. McLEAN (Melfort): Before going on with this does Sir Henry think that there is a likely field for Canadian development in the West Indies?

Sir HENRY THORNTON: That is a pretty difficult question to answer. There is not any doubt but what there is a field in the West Indies, as I pointed out, for an improved character of production, and improved methods of production. When I say production, I mean the fruits and molasses and what you would describe as the products of the soil of the British West Indies. Now in order to bring that about, undoubtedly it will mean the investment of capital, and I should think there might be an attractive field for the investment of capital in the West Indies on the part of those who understand West Indian production, or who can support themselves by the right sort of technical advice there. That is about as nearly as I can come to answering that question. I will give you one little instance, which perhaps bears upon the whole situation. I understand that crude Barbadoes syrup or molasses is sent up in bulk to Canada and is there refined and put up in tins or glasses and sold under some kind of a trade name. One would naturally think that the place to refine that molasses would be at the place of production, that it could be done cheaper there, and if that were done it could be put upon the market under some kind of an attractive trade name, such as fine Barbadoes syrup, or something of that sort. That would necessitate the construction of a small factory to make tin cans, and the necessary machinery to refine the syrup. That would seem to be the economical and sensible thing to do; and yet it is not being done. It is quite conceivable that with enterprising capital a fairly attractive business could be built up in refining and exporting Barbadoes syrup at the point of production. Now there may be fifty other things which are in the same condition. The question which you ask is not an easy one to answer.

Mr. McLEAN (Melfort): I appreciate that, and I wanted your opinion at the moment because I would like to follow it up from year to year.

Sir HENRY THORNTON: This whole thing which we call the West India adventure is still unexplored in its possibilities, as far as we are concerned. Now what ingenuity, enterprise and courage will develop in the West Indies, in the way of trade, I do not know, but you have this situation at least, that soil and



climate and conditions are favourable to certain kinds of production; you have a good transportation agency to market your production; and we have got an increasing population in Canada which will absorb that production. All the ingredients would seem to be there. The only things that remain are vision, ingenuity, and enterprise.

Mr. McLEAN (Melfort): One more thing, is there a large enough area of land which is not being put to useful purposes now available?

Sir HENRY THORNTON: I do not know. We will know more about that after our traffic representatives have made a thorough canvass of the situation. I should say that probably not all the available land has been absorbed in production, but how much is left I do not know.

Mr. CANTLEY: The great trouble is that the people down there do not want to work, if they can make a living otherwise. If you enlarge their scale of living you will have solved the whole trouble.

Sir HENRY THORNTON: There are in the West Indies a number of very sound business men. Perhaps one thing which may have hampered them is lack of leadership. After all, somebody has to bang the drum and lure the public to buy. Another difficulty that I think they have encountered is what I would call disintegrated effort, each one trying to do something by himself which he is not capable of doing, but which they could accomplish co-operatively. And probably the solution of the whole thing is going to be a very much higher degree of co-operative marketing.

Mr. HANSON: I think Colonel Cantley has put his hand on the weakness of the situation. I was told that an American company brought an efficiency expert into Porto Rico, and he was going to speed up production. They work for 75 cents a day on the plantations, and he offered them higher pay; but the result was that they worked so many days less. That is not an unusual experience.

Mr. GEARY: They have very active trade commissioners down there.

Mr. HANSON: I think what we ought to be concerned with is not so much increasing the trade from the West Indies to Canada as increasing the trade from Canada to the West Indies.

Sir HENRY THORNTON: That is right. Mr. Doherty is here.

Mr. HANSON: You are in the Transatlantic Combine, are you not, as far as the freight rates are concerned?

Sir HENRY THORNTON: I will answer that question. We are not as one might say in the Transatlantic Combine, but we work in a co-operative way with them.

Mr. CANTLEY: I admire your caution, sir.

Sir HENRY THORNTON: You can pretty nearly catch me either way. Let me say this, Mr. Hanson, that after all you have to work with your competitors.

Mr. HANSON: You have to meet the condition which exists, and I agree with you. Now it is the practice, I understand, of the Combine to accept on non-perishable goods collect shipments so far as water carriage is concerned, that is transatlantic. In other words, all you ask the shipper to pay is the railway freight to the point where the shipment is at the side of the ship, and the steamship company collects from the consignee at the other end, on non-perishable shipments.

Sir HENRY THORNTON: That has been done. It is not the rule, because we prefer to have our shipments prepaid.

Mr. HANSON: It is done?

Mr. DOHERTY: Yes, but it is not the custom.

Mr. HANSON: You do not apply that rule to shipments of non-perishable goods to the West Indies?

Mr. DOHERTY: So far as the West Indies are concerned we are anxious, for reasons of accounting methods, and both Mr. Cooper and Mr. Davidson will probably tell you that we are anxious to have all our freights prepaid.

Mr. HANSON: But solely for your own convenience for accounting methods. That is the reason you gave to Mr. O'Hara the other day.

Mr. DOHERTY: Absolutely.

Mr. HANSON: And that is your only reason?

Mr. DOHERTY: Absolutely.

Mr. HANSON: Then let me point out to you that you will not extend your trade to the West Indies unless you give the shippers of non-perishable goods that right.

Mr. DOHERTY: I suppose we have been in the shipping business since 1918, and have been carrying cargos all that time, and the first time we have had any question raised in connection with the prepayment of collection of freight rates on lumber came within the last fortnight or three weeks.

Mr. HANSON: It came through me.

Mr. DOHERTY: Within the last fortnight or three weeks.

Mr. HANSON: People are anxious to extend their business with the West Indies, and the Lumber Companies say that in the Maritime Provinces or Eastern Quebec they are always anxious for new markets. They are being crowded more or less by the West coast stuff in the American market, which has killed practically all of their American trade. And when this propaganda arose for increased trade in the West Indies, someone looked into that and they were met with this, that they would not only have to pay the freight to tide water to put it on to the ship, but they would have to pay the freight clear to the point of destination. If they were shipping it to Liverpool they would not have to do that; and the only reason given by you, Sir, was for convenience in accounting methods. I gather that there is a difference in exchange, or you wish to have your money in Canada.

Mr. DOHERTY: There are various ingredients but we are carrying lumber in everyone of our steamers to the West Indies, and the freight is paid on the lumber. The lumber is sold on an s.i.f. basis. Now why there should be any different conditions with any one shipper against the practice in the way of doing business there for years, I do not know.

Mr. HANSON: I agree with you that you must apply the rule universally, but I disagree because you are applying different rules to different services.

Mr. DOHERTY: And you have different rules as to each one; and one can be compared with the other.

Mr. HANSON: Is there any other reason than the one which you gave Mr. O'Hara in your letter the other day?

Mr. DOHERTY: No, no other reason.

Sir HENRY THORNTON: What they thought was that if we were more lenient and more liberal in the matter of the collection of charges, we could promote more business?

Mr. HANSON: That is my whole idea, and I would like that to be looked into more thoroughly.

Sir HENRY THORNTON: As Mr. Doherty has explained, this is a position which has arisen in the last two or three weeks. I can see that if this is substantiated and we find that by this or any other device we can promote trade, and still be sure of our money we will adopt it.

Mr. CANTLEY: What are you getting on lumber to the Barbadoes?

Mr. DOHERTY: I think it is \$12 a thousand.

Mr. CANTLEY: You can get your money where you land your material?

Mr. DOHERTY: You know West Indies conditions.



Mr. CANTLEY: I know that I have never had any difficulty in collecting on my freight, and I have carried cargo after cargo to Barbadoes at \$9, and got my money after I got there. Now you say you are compelling the shipper to pre-pay the freight at the ship side, and he is out two-thirds of the value of the lumber at the very start.

Sir HENRY THORNTON: The question is very simple. Here is a new condition which has arisen, and as I say, if there is any way by which we can promote more traffic without injuring ourselves or endangering ourselves with a loss we are going after the trade.

Mr. CANTLEY: There is a condition right now.

Sir HENRY THORNTON: Then what more do you want?

Mr. HANSON: I was just referring to the reasons given by Mr. Doherty for requiring pre-payment on the shipments to the West Indies, and I submit that you will never extend your trade in that way.

Sir HENRY THORNTON: That is a good reason too, but if it is out-weighed by any other reason, we will unhesitatingly drop it.

Mr. GEARY: How does it affect it?

Mr. HANSON: He ships his goods and does not get paid for them until after delivering; and in addition to that he has to pay the freight. A company which has to do that will drop that trade.

Sir HENRY THORNTON: But remember, as far as I know, this is the condition which has never arisen as an acute matter until within the last two or three weeks. The minute a position becomes acute you have to examine into your policy and if it is wrong you change it.

Mr. GEARY: In your report you show a loss of some \$200,000 in operating, some \$2,000,000 odd in depreciation—

Mr. CANTLEY: Before going into the accounts, would you be good enough to tell me what became of the vessel which was ashore in Hudson Bay last year?

Sir HENRY THORNTON: She was salvaged and is in Halifax now.

Mr. CANTLEY: What is her name?

Sir HENRY THORNTON: The Raider.

Mr. CANTLEY: What are you going to do with her?

Sir HENRY THORNTON: Sell her, scrap her. Would you like to buy her, Colonel?

Mr. CANTLEY: No, I would not like to buy her. Have you got an offer for the three ships that you advertised for offers, on the Pacific Coast?

Sir HENRY THORNTON: Yes, we have had several offers.

Mr. CANTLEY: Have you sold them?

Sir HENRY THORNTON: No.

Mr. CANTLEY: Would you care to tell us the price which you have been offered?

Sir HENRY THORNTON: No, I would rather not, but we are going to reject all the bids because they are unsatisfactory.

Mr. CANTLEY: Are you still going to sell them?

Sir HENRY THORNTON: We are in negotiation with respect to three other vessels, and I think what we will do will be to reject all bids and ask for bids on the whole six, either for one or for the whole or for any proportion of them.

Mr. CANTLEY: Are the other three on the Pacific coast at the present time?

Mr. DOHERTY: No, they are on the Atlantic coast.

Hon. Mr. DUNNING: Colonel Cantley, would not this be a good place to put in the statement which you held over from yesterday, so as to have it in the record?

Mr. CANTLEY: Yes.

## CANADIAN GOVERNMENT MERCHANT MARINE, LIMITED

## LIST OF SHIPS SOLD

Name of Ship	Deadweight Tonnage	Date Sold	Sale Price
T. J. Drummond.....	3,501	Aug. 24, 1923	\$110,000 00
J. A. McKee.....	3,575	" " "	\$110,000 00
Canadian Pathfinder.....	3,640	Oct. 12, 1925	\$ 50,000 00
Canadian Engineer.....	3,679	" " "	\$ 50,000 00
Sheba.....	3,400	Oct. 3, 1923	£ 17,000 less 4% Commis- sion.
Canadian Miner.....	2,778	Mar. 20, 1924	£ 20,000 cash.
Canadian Sealer.....	2,777	" " "	£ 20,000 cash.
Canadian Logger.....	3,839	April 30, 1924	\$100,000 00
Canadian Adventurer.....	3,408	Oct. 19, 1925	\$ 40,000 00
Canadian Sailor.....	3,357	" " "	\$ 40,000 00
Canadian Signaller.....	3,975	" " "	\$ 40,000 00
Canadian Sower.....	3,406	" " "	\$ 40,000 00
Canadian Trader.....	3,341	" " "	\$ 40,000 00
Canadian Warrior.....	3,995	" " "	\$ 40,000 00
Canadian Harvester.....	4,000	Feb. 13, 1926	\$ 50,000 00
Canadian Gunner.....	3,978	Nov. 23, 1926	\$ 50,000 00
Canadian Settler.....	4,918	Dec. 17, 1926	£ 17,750 cash. Less 2½% Commission."

Mr. CANTLEY: I want some information in regard to that ship at Halifax, and what you are going to do with that.

Sir HENRY THORNTON: The one which was ashore in the Hudson Bay?

Hon. Mr. DUNNING: It was not ashore within a thousand miles of the Hudson Bay. She was on her way out.

Sir HENRY THORNTON: That ship was salvaged and brought back to Halifax, and will be scrapped.

Mr. CANTLEY: Have you practically written her value off?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: And you do not want to give any information regarding the boats on the other side?

Sir HENRY THORNTON: Not in public, I will tell you personally anything you want to know.

Mr. GEARY: Looking at your report, among the losses you have Lost Interest on Government Advances?

Sir HENRY THORNTON: That is right.

Mr. GEARY: What is the compensation for that? What compensating features are there, or are you thinking more of the reaction on the National Railway System?

Sir HENRY THORNTON: It has no relation to the National Railway System. Oh, I get you now. The utility of the Canadian Government Merchant Marine has to be looked at, first, from the point of view of what traffic it brings in itself to the Canadian National Railways; and secondly, and probably more important, how much assistance does it render manufacturers and producers in Canada in the marketing of their products? It means about a million and one-half dollars so far as the railway is concerned. Now when you come to the other aspect, of its usefulness to the nation, I would say that probably its greatest usefulness has been to lumber producers on the Pacific coast. Mr. Stevens probably knows as much or more than I do about that. We have been told by the lumber trade in British Columbia, that our Ocean Services have been of great value to them in the marketing of their particular produce, the service which we have lately inaugurated with the approval of the Ministry of Trade and Commerce to South America have been extremely satisfactory; we are getting full cargoes in both directions. We are getting quite good cargoes in both directions.



I think that is all of material advantage to our producers. The inter-coastal service through the Panama Canal, both east and west, has been also quite satisfactory, so that I should say that the advantage of the Government Merchant Marine has been of particular importance to the newly inaugurated South American trade, and to the lumber trade on the Pacific coast, and to probably Australia and New Zealand. I am speaking now from the point of view of general advantage in promoting Canadian trade.

Hon. Mr. STEVENS: Are you operating now to Australia?

Sir HENRY THORNTON: No, we have abandoned that. I was speaking of previous years when there was considerable of it.

Mr. GEARY: You did not think it was worth while?

Sir HENRY THORNTON: I think it is particularly advantageous to the British Columbia lumber trade and the South American trade.

Mr. POWER: Was there any special advantage given to the British Columbia lumber trade in the way of lower freights?

Sir HENRY THORNTON: No, we had the usual ocean rate, but it gives them a facility and service which they might not get in any other way.

Mr. POWER: Are you operating any of those particular lines at a loss?

Sir HENRY THORNTON: That I think will come up when we consider each trade route.

Mr. CANTLEY: Are you insisting upon them pre-paying the charges on that route?

Mr. DOHERTY: The lumber charges are collected usually at this end.

Sir HENRY THORNTON: We have discovered at least one route where the ships are not needed. We have been losing \$72,000 a year on our Cardiff service, and we are just abandoning that service; and the contracts which we have are being taken over by probably the Donaldson and another line. We have abandoned that service for the reason that it is unprofitable and unnecessary.

Mr. GEARY: Does the fact that you are in business tend to stabilize rates?

Sir HENRY THORNTON: Not on the North Atlantic.

Mr. GEARY: It does not tend to keep down rates?

Sir HENRY THORNTON: I do not think we are a sufficient factor to have any material influence on the standard of rates.

Mr. CANTLEY: You have not the type of boats which can compete on the North Atlantic.

Sir HENRY THORNTON: Colonel Cantley is quite right in that.

Mr. GEARY: Are you looking forward to the time when you can confine your operations to the places where you are of advantage?

Sir HENRY THORNTON: We are trying to rearrange our services so as to employ them on such routes as will be both remunerative and strategic, economic usefulness to Canadian producers.

Mr. CANTLEY: And where facilities to-day are not all that may be desired, so far as the export trade of this country is concerned?

Sir HENRY THORNTON: Yes, that is true.

Mr. CANTLEY: That is the fundamental reason, in my judgment, for continuing the operation of this fleet at all.

Sir HENRY THORNTON: Yes, it certainly is not attractive from the financial point of view; therefore the only reason may be the economic advantage to the Dominion of Canada.

Hon. Mr. DUNNING: Of course you could do better if you had a better type of ships?

Sir HENRY THORNTON: Oh, certainly. You will understand that these ships were built during the war, under great stress, and at very considerable expense, to meet a certain necessity which at that time existed and which has since disappeared.

Mr. GEARY: I gather from your answers that you have these factors well in mind.

Sir HENRY THORNTON: Oh yes, quite.

Mr. GEARY: These ships do not last forever, and you may replace them or you may not?

Hon. Mr. DUNNING: A large number have been scrapped.

Mr. GEARY: I understand that. It may be an economic proposition to scrap some of them.

Sir HENRY THORNTON: Yes. This thing is not running wild, nor is it allowed to run its own course. We are trying each year to meet the conditions.

Mr. GEARY: Many a line will drop its business because it has not capital behind it. You have, so to speak, unlimited capital behind it. It would not be wise just to go on with it merely because you have started?

Sir HENRY THORNTON: Not just for the fun of doing it. That is quite right.

Mr. POWER: Have you in mind the probable deficit from the West Indian lines in the next three or four years?

Sir HENRY THORNTON: Oh yes.

Hon. Mr. DUNNING: Just before we adjourn, I think Mr. Geary asked me last night to try and arrange that the sittings of this Committee would not conflict with that of the Committee on Railways, Canals and Telegraph Lines. That Committee, I understand, is to meet on Friday. In that case, this Committee will not meet on Friday.

The CHAIRMAN: This Committee stands adjourned until 11 o'clock to-morrow.

The Committee adjourned until Thursday, May 2, 1929, at 11 a.m.



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SESSION 1929

HOUSE OF COMMONS

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SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8—THURSDAY, 2nd MAY, 1929

## WITNESSES:

Sir Henry W Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. D. O. Wood, Acting General Manager, Canadian Government Merchant Marine.

Mr. J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine.

Mr. F. W. Fairweather, Bureau of Economics, Canadian National Railways.

Mr. S. J. Hungerford, Vice-President, Operation and Construction Department, Canadian National Railways.

OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1929





# MINUTES OF PROCEEDINGS

ROOM 375, HOUSE OF COMMONS,  
THURSDAY, May 2, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Bell (St. Antoine), Cantley, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

*In attendance:* Sir Henry Thornton, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister of the Department of Railways and Canals.

## TENTH ANNUAL REPORT OF THE CANADIAN GOVERNMENT MERCHANT MARINE, LIMITED

Discussion took place as to the policy that should be pursued by the Merchant Marine.

The Balance Sheet, as contained on pages 6 and 7 of the Report, was considered, item by item.

The Operating Account, as shown on page 8 of the Report, was reviewed, and Sir Henry Thornton made a general statement respecting voyages completed.

The Deficit Account, page 9 of the Report, was reviewed briefly.

On motion of Mr. Hanson,—

*Resolved*,—That the Tenth Annual Report of the Canadian Government Merchant Marine, Limited, be concurred in.

The Committee took recess at 1 p.m.

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The Committee re-convened at 4 p.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Cantley, Chaplin, Geary, Gray, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

*In attendance:* Sir Henry Thornton, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

## ESTIMATES, 1929-30. CANADIAN NATIONAL RAILWAYS, CANADIAN NATIONAL STEAMSHIPS AND MARITIME FREIGHT RATES ACT. VOTES 336, 337, 338, 339 AND 340

Copies of a book indicating the financial requirement of the Canadian National Railways for the year ending December 31, 1929, were distributed to the members present, together with copies of the Estimates, Items 336 to 340.

After discussion, the several items were agreed to.

The Committee adjourned at 5.40 p.m., to meet again at the call of the Chair.

JOHN T. DUN,  
*Clerk of the Committee.*





## MINUTES OF EVIDENCE

COMMITTEE ROOM 375,

HOUSE OF COMMONS,

THURSDAY, May 2, 1929.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Gentlemen, we had started with a consideration of the balance sheet.

Sir HENRY THORNTON: May I just make one statement? The question was asked with respect to the value of the Canadian Government Merchant Marine to the trade of Canada. I have some figures here which are interesting in that connection. The value of the goods handled on our ships last year amounted to \$159,000,000, of which \$112,000,000 was export, and \$39,600,000 was import traffic, and \$7,200,000 was inter-coastal traffic. That is of interest in connection with the general question asked.

Mr. GEARY: They tell me there is sometimes difficulty in shipping wheat from Canadian ports because the bottoms do not come to the Canadian ports as readily as they go, for instance, to New York. There they pick up a cargo more readily, and for that reason wheat is sometimes diverted to New York.

Sir HENRY THORNTON: No doubt about that.

Mr. GEARY: Would these ships remove that difficulty?

Sir HENRY THORNTON: They would not be a drop in the bucket.

Mr. GEARY: The only point I had in mind was that as long as it exercises some regulatory power the Canadian Government Merchant Marine would be justified in that alone.

Sir HENRY THORNTON: The outstanding fact that we carried Canadian products to the value of \$112,000,000 exported last year.

Mr. McLEAN (Melfort): Largely package freight, I suppose.

Mr. WOOD: Package freight and lumber, with a certain amount of grain, of course.

Mr. JELLIFF: I asked yesterday about the tonnage carried last year. You said you would have that this morning.

Mr. WOOD: We can give you the total tonnage and also the details.

Mr. JELLIFF: The total tonnage will do.

Sir HENRY THORNTON: The total tonnage was 1,307,000 tons cargo.

Mr. CANTLEY: How is your South American service turning out?

Sir HENRY THORNTON: Very well. We are getting now practically full cargoes.

Mr. CANTLEY: Both ways?

Mr. WOOD: Yes, both ways. Of course, the north bound traffic is mostly a matter of grain and flax and stuff like that.

Sir HENRY THORNTON: That South American service has been very satisfactory—surprisingly so.

Mr. CANTLEY: Where are they carrying the north bound cargoes?

Mr. WOOD: Flaxseed goes mostly to New York and Philadelphia, and we are offered corn for Halifax and St. John.

Mr. JELLIFF: I asked that question because you gave three causes for the falling off last year, and I wanted to see if we could get the relative importance of those three causes.

Sir HENRY THORNTON: W carried last year a greater tonnage but at a lower rate; the tonnage increased but the revenue decreased because of those lower rates.

Mr. CANTLEY: Are you getting a fair rate from the South American service?

Mr. WOOD: Fair, but some of it could be a little better.

Mr. CANTLEY: Nothing is so good that it can not be better, but are you practically breaking even?

Mr. WOOD: Not quite, but nearly so.

Hon. Mr. STEVENS: Has it been demonstrated to your satisfaction that the government operated merchant marine cannot successfully compete with the world shipping companies—I mean with shipping in the world generally?

Sir HENRY THORNTON: In answering that question you have to take into consideration the character of the tools with which we are working.

Hon. Mr. STEVENS: I mean, of course, with the tools we have.

Sir HENRY THORNTON: Of course we cannot. This is largely because of the character of our ships, which were not built for this particular purpose. They are slow and have small tonnage.

Hon. Mr. STEVENS: Then the next consideration which strikes me as one which should engage attention is this: having in mind the desire to find new markets and to extend markets where perhaps there is not at present a trade existing, and the service from private companies, would it not be better to direct the major portion of the efforts of the Canadian Merchant Marine in conjunction, say, with the Department of Trade and Commerce to a development of new world markets?

Sir HENRY THORNTON: That is exactly what we are doing. This new South American service is a good example.

Hon. Mr. STEVENS: Let me say before you go on that it would not be expected—cannot be expected—that on that sort of work you could get a return, that is, a profitable return.

Sir HENRY THORNTON: That is a perfectly sound statement. That is perfectly true. That is what we are trying to accomplish.

Hon. Mr. STEVENS: How about co-operation? I am not suggesting that there is anything in the nature of friction, because I think the Hon. Mr. Malcolm is a gentleman who will work harmoniously with you, but is there any positive contact intelligently being applied to the energies of both the Department of Trade and Commerce and the Merchant Marine?

Sir HENRY THORNTON: The answer is yes. With the Minister of Railways and Canals (Hon. Mr. Dunning), the Minister of Trade and Commerce (Hon. Mr. Malcolm), and ourselves, the work is being carried on in close contact; we are constantly exchanging information and having meetings with a view to accomplishing the very thing you have outlined. I should say that the relationship and the co-operative position between my own Minister (Hon. Mr. Dunning), the Minister of Trade and Commerce (Hon. Mr. Malcolm), and the Merchant Marine is all that anyone could wish.

Hon. Mr. STEVENS: And your officials and the officials of the Department of Trade and Commerce—I am not suggesting that there is any ill-feeling, but there is a vast difference between a sort of negative contact and active co-operation, is there not?



Sir HENRY THORNTON: There is not only an active co-operation, but a feeling of what I would describe as enthusiastic and friendly co-operation.

Hon. Mr. STEVENS: That is good. That is the way it ought to be.

Mr. GEARY: I do not know whether this should go on the record or not. You have a lot of ships, quite a fleet, and when they were built and put into commission they were serving a pretty useful purpose and at any rate carried the opinion at the time that it was a necessary purpose. These ships are growing old and are becoming more obsolescent all the time; they cannot take the cargoes or take them with the same despatch that their competitors can, very largely. I would be interested in knowing whether you contemplate carrying those ships on uneconomically until they have to be scrapped and replacing them and building the fleet up with new and modern ships, or has that come into your calculations as yet, or not?

Sir HENRY THORNTON: Well, that is a general condition which is becoming each year more and more pressing. This is as the Minister wishes.

Hon. Mr. STEVENS: There should not be any objection to it.

Hon. Mr. DUNNING: I do not know of any objection.

Sir HENRY THORNTON: That very question of policy is one which is under discussion between the Minister of Railways, the Minister of Trade and Commerce, and myself. We are all of us seized with that situation. Does that answer your question, Colonel.

Mr. GEARY: Yes, Sir Henry. I think you are faced with these ships and their replacement, and it is quite a large question, I should think.

Sir HENRY THORNTON: Yes, it is.

Mr. CANTLEY: I judge it is not the intention of the department to replace these ships, and I would call your attention to what I have called your attention to in years past in fairly vigorous terms, that is in regard to the smaller type of tonnage. You have boats down to less than 5,000 tons. You cannot help but lose money every year. Why not dispose of them and write them off?

Sir HENRY THORNTON: That is what we are doing as opportunity presents.

Mr. CANTLEY: They are saleable at some price, and the quicker we take that price, whatever it may be, and write them off and get clear of the liability, because there is liability attached to them every day, the better.

Sir HENRY THORNTON: I take it that your suggestion is that we should immediately scrap these which I would call inefficient ships, and get rid of them?

Mr. CANTLEY: You should sell them. You have sold some.

Sir HENRY THORNTON: That is a part of the general question of policy that is under consideration, and my answer to Colonel Geary would be substantially the answer to you.

Hon. Mr. DUNNING: I suppose, Sir Henry, that you as well as myself would like the Committee to express any view they have in regard to the desirability of staying in this business or going out of it. Should we get out of it altogether?

Hon. Mr. STEVENS: Taking, for instance, the Hudson Bay route which is going to be an important thing almost immediately. I assume there has been no arrangement with shipping companies to immediately handle this shipping. Could you not dedicate these ships to that purpose?

Sir HENRY THORNTON: Dedicate is a peculiar word.

Hon. Mr. STEVENS: Say consecrate.

Hon. Mr. DUNNING: My idea is that that route will require another class of ships, as Colonel Cantley has put it. I consider it would not be very fair to the Hudson Bay route to use these boats.

Hon. Mr. STEVENS: I was not referring now to the cost of operating those ships, but rather to demonstrate the feasibility of the route.

Hon. Mr. DUNNING: So far as that demonstration is concerned, our department of Railways and Canals' ships carrying supplies have gone in and out of there and we know what they have done, and there is no trouble about that.

Hon. Mr. STEVENS: But they have not gone in there loading and unloading cargoes back and forth, and establishing contact with the old land. I would suggest to the Minister whether it could not be very well started by taking some of these ships and putting them on there. I realize that at the outset there will be a great deal of unnecessary loss, which will vanish when the business becomes established.

Hon. Mr. DUNNING: Perhaps we are talking about two different things. From the standpoint of the mercantile practicability of the route for wheat, I think these boats would not demonstrate anything more than that it can be done, because you cannot haul wheat in a two or a four thousand ton boat.

Hon. Mr. STEVENS: You have over twenty from eight to ten thousand tons.

Hon. Mr. DUNNING: And those are the very boats which Sir Henry Thornton is making the best use of now. I would be very glad to remember your suggestion. We have plenty of time, in any case.

Mr. GEARY: If you are to take advantage of the season up there, you have to move yourself pretty quickly.

Hon. Mr. DUNNING: If the experience of two years which indicates about five months' navigation, proves general in its application, of course it is a question of moving ourselves fairly rapidly after it once begins to arrive at Churchill. There is no doubt of that.

Mr. CANTLEY: I have not quite finished, and I want to call your attention to this. You have twelve boats on this list in the four and five thousand class. Now those boats cannot possibly live and you have to take a loss on them, and the quicker you realize that and dispose of those boats, the better. They are saleable at some price.

Sir HENRY THORNTON: Yes, that is quite true.

Mr. CANTLEY: And in addition to that you have twenty boats of eight thousand tons and two boats of ten thousand tons. Some of them I will admit are well employed, for instance, in that South American trade and possibly in opening up some other of the services; but I doubt if more than half of them are usefully employed. And with that purpose in view, the time will soon come when some if not all of those eight thousand ton boats will have to be or should be disposed of by reason of their unsuitability and their inability to compete with rival boats in the same trade. Now what is the use of our carrying these on and continuing to lose money and lose interest?

Sir HENRY THORNTON: Your question relates to the whole future policy with respect to the maintenance of the Canadian Government Merchant Marine.

Mr. CANTLEY: And particularly to the question of the disposal of those small boats.

Sir HENRY THORNTON: And that all involves the question of what we are going to do with the Canadian Government Merchant Marine. The only answer I can give to the Committee is that that question is now engaging the serious attention of my own minister and the Minister of Trade and Commerce and myself, to see if we can formulate a policy.

Mr. CANTLEY: Have you sold any of these small boats in the last few months?

Sir HENRY THORNTON: Have you not got a list, Colonel?



Mr. CANTLEY: Yes, but I returned it yesterday.

Sir HENRY THORNTON: The answer is that we have not sold any in the last ten or twelve months.

Mr. CANTLEY: You have some on the Pacific coast, for sale?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: And you have received some tenders?

Sir HENRY THORNTON: Yes, but they were unsatisfactory.

Mr. CANTLEY: Are you still going to hold them on the Pacific coast, when it costs you money to maintain them every day?

Sir HENRY THORNTON: No. We have six ships to-day that we are offering for sale, three on the Pacific coast, but the tenders were unsatisfactory. We are now going to offer six for tenders.

Mr. CANTLEY: That is only one-half of the number that I think you ought to get clear of, no matter what you get out of them.

Sir HENRY THORNTON: That is what we are doing; we are selling them as fast as we can. We do not want to give them away; if we do we will have an uproar in the House of Commons that we are chucking them away. We are going to get the biggest price we can for each one of those ships, even if we have to wait a little while to get it. I think that is what we will have to do.

Mr. CANTLEY: I do not want to press the matter further.

Sir HENRY THORNTON: In principle, there is no difference between what I have said and what you have said, Colonel Cantley.

Mr. CANTLEY: Except that in the one case you would get action, and you are not getting anything done.

Sir HENRY THORNTON: In the one case you would move with a greater degree of rapidity than I think the case requires.

Mr. CANTLEY: In the one case, I would be moving and you are not.

Sir HENRY THORNTON: Yes, I think we are moving.

Mr. McLEAN (Melfort): Supposing you were handling the Government Merchant Marine as your own private concern, and could secure sufficient money, what would you think of disposing of a percentage of these boats? You have about thirty-nine of them outside of those in the West Indies service. What would you think of disposing of ten or twelve of them this year and putting in two or three up-to-date freighters in their place?

Sir HENRY THORNTON: Looking at it as a private enterprise, divorced from the National Railway and the Government and everything else, in the first place if it were a private enterprise we would not be in business very long, under present conditions. Personally the thing to do would be to get rid of the inefficient ships and replace them with more efficient ships, under the present conditions. Your question is a hypothetical one, and if the Canadian Government Merchant Marine were a private company, the only thing to do would be to get better ships or go out of business.

Hon. Mr. DUNNING: As a matter of fact, if it were a private company it would have to go out of business. It would not last thirty seconds.

Mr. McLEAN (Melfort): What would you think of the suggestion to dispose of a certain percentage of them and replace them with up-to-date vessels? To-day the race is to the swift.

Sir HENRY THORNTON: The answer to that is that we are disposing of these smaller ships as rapidly as circumstances permit. Whether they should be replaced now by more modern ships in something which is involved in this whole matter of the future of the Canadian Government Merchant Marine which Geary raised, and with respect to which I have no answer to give to-day, as I do not know what we ought to do.

Mr. McLEAN (Melfort): You have invested a certain amount of money in organization and experience and in losses which someone would have to spend in one way or another in starting in such a business. It seems to me it would be a pity to sacrifice that by going out of business.

Sir HENRY THORNTON: Those are all factors which have to be considered in connection with the Canadian Government Merchant Marine.

Hon. Mr. DUNNING: And it should not be forgotten that our West Indies policy was in the direction which you have indicated, providing new and better tonnage.

Mr. McLEAN (Melfort): I appreciate that.

Mr. GEARY: One needs to see it.

Mr. McLEAN (Melfort): You have made a big start, anyway. In reference to the Hudson Bay service, the factor of speed must be quite important in putting a useful service in there. For instance, you would meet the possibility of poor weather conditions and the possibility of ice towards the close of navigation, where small, slow boats might be in considerable danger, whereas up-to-date vessels would have a wider margin of safety.

Sir HENRY THORNTON: I should think that was unquestionably true, although I am not experienced in navigation.

Mr. McLEAN (Melfort): It seems to me that putting these smaller boats on, even as an experimental proposition, might injure the route a good deal because they might be unsafe.

Hon. Mr. STEVENS: I do not suggest the smaller boats, but the larger boats.

Sir HENRY THORNTON: The larger boats which might conceivably be put in this place are at present used to advantage in other services.

Mr. McLEAN (Melfort): I think it would take fairly fast boats to usefully demonstrate that route.

Hon. Mr. DUNNING: There is just one factor. Last summer the department had to secure quite a lot of lumber from British Columbia. Through the good offices of the Merchant Marine acting as agents for the department, a tramp boat was chartered and loaded three million feet of lumber at Vancouver, sailed around to the Panama and around through the Hudson Straits and she was about of eleven knots speed, if any memory serves me right,—that is subject to correction. I did have a rough analysis made, and the cost of taking that lumber in that way was cheaper than if it has been hauled in by rail, if the rail had been in. That is one interesting angle of the commercial experimental possibilities. We were not able to do that with a Merchant Marine ship at all, because the Merchant Marine ships are all profitably employed otherwise. They were employed in such a manner at that time that they could not be taken off.

Mr. GEARY: Something has been said about a reinforced ship.

Hon. Mr. DUNNING: We have not had any reinforced ships in there at all. The ordinary tramp vessel has taken in our stuff.

Hon. Mr. STEVENS: There is just one point to which I was trying to direct attention. It is not the question of types of ships or anything else; you are shipping on a new route.

Hon. Mr. DUNNING: You mean the commercial experiment, Mr. Stevens?

Hon. Mr. STEVENS: Exactly. You have a new route there. I thought that you might take a certain number of your ships—I used the word “dedicate” before—and dedicate them; then I used the word “consecrate” later,—putting them on that route, because unless you have arrangements with some steamship companies it will take some time to get the shipping world interested in that.



Hon. Mr. DUNNING: Your object and mine are exactly the same, Mr. Stevens.

Hon. Mr. STEVENS: I want to ensure that the route is operative from the moment that the harbour facilities are ready to handle freight.

Hon. Mr. DUNNING: I have a very strong personal interest in that also.

Sir HENRY THORNTON: You want to be sure the route has a fair run for its money.

Hon. Mr. DUNNING: The establishment by some agency through some means of what would constitute fair ocean and insurance rates from Churchill.

Hon. Mr. STEVENS: Absolutely. For instance, if you are going out on the open market, assuming that you could ship a cargo of grain, and you just simply go on the world market and invite shipping there, your insurance rates and your shipping rates are necessarily going to be very high for the commencement.

Hon. Mr. DUNNING: Of course, there are other ways of accomplishing that other than taking unsuitable ships. However, I can only say this that what you are driving at is very much in the mind of the department, and of the government, and when that port is ready to ship grain there will be means found to have boats there to carry it; there must be. Most ports, like Topsy, have grown throughout the centuries. Here is a port that is going to start shipping grain on a given day, and shipping it, in all probability, in considerable quantities.

Hon. Mr. STEVENS: I am just taking now a purely hypothetical case; assuming what I have suggested is no good, not to be entertained—

Hon. Mr. DUNNING: I did not say that.

Hon. Mr. STEVENS: Just assume that. Here are freighters owned by shipping companies; they are not going to go into Churchill at the commencement and experiment on that route at a rate that is going to show advantageously for Churchill. That is certain, is it not?

Hon. Mr. DUNNING: No one would expect that.

Hon. Mr. STEVENS: Then in order to make a fair test you have got to make an estimate of subsidy for them.

Hon. Mr. DUNNING: No.

Hon. Mr. STEVENS: Or, in some way or other, make up their anticipated loss in the initial stages—

Hon. Mr. DUNNING: In getting ships to go in there at the present time, we, of course, charter them on a time charter. The owners, of course, do not give us a rate on the commodities. But it is possible, as Colonel Cantley knows, to engage ships on a time charter, and, of course, that is the way we have been doing.

Hon. Mr. STEVENS: Do not forget this; if you put on modern ships, as I have suggested, irrespective of the cost of operation, to carry grain out of that port, and if we were doing it from the standpoint of practical navigation successfully, you would sooner or later have the competition of other shipping companies, just as soon as they see you were functioning. Show them that you can function, irrespective of the cost, and then you would mighty soon have the shipping world in there competing with you on the question of price.

Hon. Mr. DUNNING: That is worth considering, although I am rather staggered at the possible rates that would develop from the use of those small ships.

Mr. CANTLEY: Mr. Minister, I understand Mr. Stevens' suggestion to be that you should show the way by the employment of some of the Merchant Marine ships, some of the eight thousand or ten thousand ton class of ships which, from the observation you made, are not suitable for that trade; is that correct?

Hon. Mr. DUNNING: I would not say they are not suitable. I would say they are not the most economical by any means, that if you base your rate upon the cost of operating one of these eight thousand ton ships from Churchill across the North Atlantic you will not get a very good result.

Mr. CANTLEY: Well, against that I would point out this, that a large proportion of the grain traffic from Montreal is carried on to-day in boats of eight thousand and ten thousand ton.

Hon. Mr. DUNNING: About ten thousand tons average.

Mr. CANTLEY: And that is the traffic that makes the price, roughly, on carrying grain. I am not referring to liners. A certain proportion will take it, but the great bulk of the world's traffic in grain is the deadweight traffic. Take your grain trade out of Montreal, the great bulk of it is carried by tramp vessels of that character. If your traffic conditions through the Hudson Straits will not permit of the employment of that type of ship, you will then have to build a superior type of ship along constructive lines both as to hull and equipment of the Newfoundland sealers. If you are going to employ vessels of that class their cost will be fully 75 per cent greater than the type of vessel I am referring to. It will have to be demonstrated, and it can only be demonstrated through experience, as to which class of ships can carry on that trade. Mr. Stevens' suggestion is—and I think it is a good one—that you put on a few of these ships. I made the suggestion a few years ago. I suggested that if you put ten ships in there and got through safely I had nothing more to say about the practicability of the whole route.

Hon. Mr. DUNNING: I can assure you, on the basis of the information that we have now, that we will do that, and I will say ten ordinary ships.

Mr. CANTLEY: I am sorry I cannot accept your assurance. The real test is the actual work. You have your opinion, which is founded on a lot of information, and I have my opinion.

Hon. Mr. DUNNING: It is founded on the ships that have been in there and out in the last few years actually carrying cargoes.

Mr. CANTLEY: Some of them went in there and never came out.

Hon. Mr. DUNNING: Which one?

Mr. CANTLEY: Two of them.

Hon. Mr. DUNNING: Which one?

Mr. CANTLEY: Two of them that Mr. Cochrane sent out. I have forgotten the name now.

Hon. Mr. DUNNING: They went ashore on the mud in the Nelson river.

Mr. CANTLEY: They did get in, in one case, and never came out.

Sir HENRY THORNTON: The answer to that is, that there are no ships of the Canadian Government Merchant Marine of suitable size available for this service without taking them off routes on which they are now profitably engaged. The suggestion is a good one, and I would not hesitate to do it at all if the ships were available.

Mr. CANTLEY: I will submit this, that if you will give me the information to enable me to pursue it, I think I could find in the list ships that can be put on that service without your losing any money.

Hon. Mr. DUNNING: I do not want any misunderstanding. I am not rejecting the idea. I can assure you of this, that in some way shipping will be provided to carry cargoes. One of the possible ways is the suggestion put forward by Mr. Stevens, which must be examined, of course, and, in fact, is under examination. Naturally our minds are on this problem, but we will have to see that it will conform to the general economics of the whole situation. It is just a mat-



ter of finding the best way to accomplish the thing which both Mr. Stevens and I have in mind, that is, that this route should get a fair test, not a loaded test, not a test which introduces extraneous factors which are favourable to the route, or on the other hand a test which by its very nature introduces unfavourable factors. I think that Mr. Stevens will agree that that is desirable.

Hon. Mr. STEVENS: I quite agree.

Mr. McLEAN (Melfort): I agree with the Minister entirely in that, Mr. Chairman. I want to see all the favourable factors introduced in the opening of a new route like this, because there are sufficient handicaps that we have not yet overcome, and, if we can do it, we ought to give it a little leeway. We ought to put in all the favourable conditions we can to start the route. There are factors such as lack of experience in navigation, and so forth. Sir Henry, perhaps you will be good enough to give me information on two points. One is as to the relative speed of your present shipping.

Sir HENRY THORNTON: The average speed of the present ships?

Mr. McLEAN (Melfort): Of the various classes, the tens, eights and fives.

Mr. DOHERTY: About nine and one-half knots; the smaller ones are slightly slower, perhaps eight and one-half to nine knots.

Mr. McLEAN (Melfort): The small ones are eight and one-half knots?

Mr. DOHERTY: About eight and one-half to nine knots, and the others nine to nine and one-half knots. Then the oil burners, such as the *Constructor*, will probably do eleven knots.

Mr. McLEAN (Melfort): That is the ten?

Mr. DOHERTY: That is the ten, yes. They will do about eleven knots, I think.

Mr. McLEAN (Melfort): Without regular steaming.

Mr. DOHERTY: Yes, in ordinary fair weather conditions.

Mr. McLEAN (Melfort): Sir Henry, would you say that your ships are so constructed and equipped that they can be run as economically as modern vessels that you would build to-day, if you were going into the market to-day?

Sir HENRY THORNTON: No, they are not.

Mr. McLEAN (Melfort): What percentage of increased cost is entailed in the operating of your ships on account of lack of modern construction and equipment?

Sir HENRY THORNTON: I certainly cannot answer that off-hand. Can you, Mr. Doherty?

Mr. DOHERTY: No, sir, I cannot.

Hon. Mr. STEVENS: I wonder, could I ask Mr. Doherty, or one of your staff here; there has been a great deal said about these ships—I am speaking of the eight thousand and ten thousand ton class—being so hopelessly inferior that they cannot be operated in any economical way. Just in what respect are they inferior to the normal 8,000 or 10,000 ton freighters?

Sir HENRY THORNTON: Before that question is answered, I do not want anyone to get the impression that they are hopelessly inferior.

Hon. Mr. STEVENS: That is the impression we get. Every time we ask a question it is given back to us that there is no hope with these ships, that these ships by construction and equipment are very inferior.

Sir HENRY THORNTON: They are not modern ships, and are not as susceptible to equal economic operation as a modern ship, but I certainly do not want to give the impression that these ships are no good.

Hon. Mr. STEVENS: We know that they are not passenger ships, nor liners; they are just freighters—plain ordinary freighters.

Mr. DOHERTY: The modern freight steamer built for the tramping trade is so equipped that she can handle cargoes better than we can with our vessels which are not built essentially for such a trade.

Hon. Mr. STEVENS: You mean, for instance, vessels of 'tween deck construction.

Mr. DOHERTY: Yes. These steamers have been operating in a certain trade, but we find that their slow speed operates against the possibility of our getting a paying cargo.

Hon. Mr. STEVENS: Take an ordinary freighter—I see hundreds of them each year—such as are carrying cargoes of grain and lumber from Vancouver, or such as stop at Montreal; what speed do they make?

Mr. DOHERTY: About the same speed as our steamers, except that the more modern tramp steamers will make greater speed, but the general run—

Hon. Mr. STEVENS: I am speaking of the general run.

Mr. DOHERTY: The speeds will be about the same.

Hon. Mr. STEVENS: Of course they will.

Sir HENRY THORNTON: Another thing which I think has had some effect—Mr. Doherty can correct me if I am wrong—is that since the war there has been a very considerable ocean tonnage built of a very modern character, with respect to which we come into competition, and one of the effects of that has been to put out of business a very large number of our older ships. For instance, last Easter, I saw in the James river I should think about sixty ships which were built by the United States Government during the war, and which are simply anchored there doing nothing. They looked from the outside to be fairly serviceable ships; yet, because of their relatively small size and perhaps their slower speed, they cannot be used commercially. So we come into competition with a considerable increment of ocean tonnage of a modern character, built since the war. I do not say that I saw dozens of ships; I saw acres of ships. I think they estimate them by the acre, and they were anchored in the James river, and apparently there was no use for them.

Mr. HANSON: You can see them yarded up in the Panama canal. I have seen lots of them.

Mr. JELLIFF: If I may venture to go back to my former question with respect to the reduction of rates, I think it came out yesterday that there were some reductions on flour, and if I remember rightly, on lumber. I would like to know how many commodity rate reductions there were, to try and bring out the fact whether we will have to face the same factor in the future.

Sir HENRY THORNTON: I think what you have in mind is a general statement with respect to the rate situation last year as compared with the year before.

Mr. DOHERTY: Every service has had its own peculiar difficulties, and to give Mr. Jelliff a general answer would scarcely be fair. If we could deal with the different services as they are, or as they have been, we could tell you what the corresponding earnings have been.

Sir HENRY THORNTON: Mr. Jelliff, I think an answer to your question will emerge when we come to consider each one of the routes with the earnings and deficits of each route. At that time the rate situation can be revealed more intelligently than by giving you a general answer now, which probably would not mean anything.

Mr. JELLIFF: There is one answer which perhaps you can give, as to whether there was anything like a general reduction.

Mr. DOHERTY: In certain of our services the reductions were very drastic—

Mr. WOOD: And wholesale.



Mr. CANTLEY: Will you be good enough to explain why you have taken these seven vessels out of one service and transferred them to the Railway Depart?

Sir HENRY THORNTON: They were transferred to the Canadian National West Indies service.

Mr. CANTLEY: Why? What is the object?

Sir HENRY THORNTON: Because the company is a corporate entity and should own its own implements—should own its own ships. I do not know just what you have in your mind, Colonel.

Mr. CANTLEY: I am not quite able to see the necessity for the change. Could you not have chartered the boats?

Sir HENRY THORNTON: Yes; we could have done half a dozen different things.

Mr. CANTLEY: Why do this particular thing? I am not criticizing. I am asking for information.

Sir HENRY THORNTON: We have a company known as the "Canadian National (West Indies) Steamships, Limited," and they own the five new ships, and it was thought preferable for them to own all of these seven other ships.

Mr. CANTLEY: At what rate were they transferred?

Mr. COOPER: We gave that yesterday.

The CHAIRMAN: About \$25 a ton.

Hon. Mr. STEVENS: The list is in yesterday's evidence.

Mr. HANSON: In any event, that is the plan you adopted?

Sir HENRY THORNTON: Yes.

Mr. HANSON: And it was necessary to have these seven ships for that service in addition to the five *Lady* boats?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: I think we will probably make more progress if we go on item by item.

Mr. COOPER: The book value of the vessels as of December 31, 1927, is shown at \$62,370,683.92.

Hon. Mr. STEVENS: That is a reduction?

Mr. COOPER: There was a reduction during the year of \$1,124,335.14.

Hon. Mr. STEVENS: Written off?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Ships scrapped, sold, disposed of, etc., etc.

Mr. COOPER: It was the *Canadian Raider* which was written out—just one ship.

Hon. Mr. STEVENS: How much did you take out of the depreciation fund for that?

Mr. COOPER: The amount of depreciation accrued against it was \$336,094.03.

Hon. Mr. STEVENS: That was taken care of out of the depreciation reserve?

Mr. COOPER: Yes.

Mr. GEARY: It is credited to depreciation reserve?

Mr. COOPER: It is charged to depreciation reserve.

Mr. GEARY: And the rest is what?

Mr. COOPER: The capital cost of the ships is written off as against the capital liability account, which is represented by the capital stock.

Mr. GEARY: And it just naturally disappears?

Mr. COOPER: Yes, absolutely. The amount of interest included is reduced; the amount of depreciation is reduced, and to that extent the profit and loss deficit is reduced.

Mr. GEARY: That means your depreciation reserve is not adequate? You could have taken the whole capital cost out?

Mr. COOPER: No. The book value was \$1,151,000, and the depreciation is shown at \$336,094.03. We accrued the interest at a rate of  $4\frac{1}{2}$  per cent.

Mr. GEARY: Was it destroyed?

Mr. COOPER: It was wrecked, yes.

Mr. GEARY: Any insurance?

Mr. COOPER: Yes, there was a small amount of insurance—\$152,000.

Mr. GEARY: You ought to be able to take care of all of your losses, because that is taken as a factor in setting up depreciation.

Mr. COOPER: We would not expect that unless a boat lived twenty-five years, and we accrued depreciation on a 4 per cent basis.

Mr. GEARY: That is set up on a general basis. You may lose a ship at the end of a year, and you take care of that in estimating your depreciation—the same with obsolescence, wearing out and destruction.

Mr. COOPER: This had a book value of \$1,151,000, and with that accrued interest for depreciation at the rate of  $4\frac{1}{2}$  per cent, the total depreciation accrued to date was \$336,094.03.

Hon. Mr. STEVENS: You said that there was \$152,000 insurance. Was that insured in your own insurance reserve?

Mr. COOPER: Yes. There would be about eight years' depreciation accrued against this particular ship.

Hon. Mr. DUNNING: Mr. Cooper, to clear it up, you might deal with one of the cases where you sold a vessel.

Mr. COOPER: It is exactly the same thing.

Mr. GEARY: You do not set up a depreciation reserve to take care of accidents?

Mr. COOPER: They are covered by insurance.

Mr. GEARY: You have not insured them up to their value?

Mr. COOPER: No, only on the present day value. These boats are all carried in the investment account.

Sir HENRY THORNTON: If we could insure these ships at their original value, the solution would be simple.

Mr. GEARY: Your present value is approximately your book value, less depreciation?

Mr. COOPER: No, sir.

Mr. GEARY: Why not?

Mr. COOPER: The insurance value is something like \$28 a ton. We only collected from the insurance company, with respect to that vessel on the basis of \$28 per ton dead weight.

Mr. GEARY: Your present value is presumably your book values less your depreciation?

Mr. COOPER: No, sir.

Mr. GEARY: Why not?

Mr. COOPER: The insured value is something like \$28 a ton—we only collect from the insurance company the present worth of that vessel, which is on the basis of \$28 per ton.



Mr. GEARY: They have depreciated faster than you have allowed for.

Hon. Mr. STEVENS: The capital cost was enormously above the present cost.

Mr. GEARY: That may be true, but theoretically the value less the depreciation should leave the present value.

Sir HENRY THORNTON: If the ship lived out its life.

Mr. GEARY: We are talking at cross-purposes. There is that much left in the book value of the ship, as representing the difference between the cost price and the depreciation, theoretically. That must be sound.

Hon. Mr. STEVENS: And if you cannot insure it for that, you must lose the difference.

Sir HENRY THORNTON: We could not insure these ships for that.

Mr. GEARY: Therefore you have to take their residue value.

Sir HENRY THORNTON: Nor the residue value; if we could, the faster they are wrecked, the better.

Mr. GEARY: The depreciation is only set up to represent the used up value?

Mr. COOPER: Your argument would be correct, Colonel Geary, if present day values were equal to the cost of these vessels.

Mr. GEARY: They were over-cost, really?

Mr. COOPER: As compared with present day values.

Hon. Mr. STEVENS: About three times.

Mr. GEARY: And their inventory value would not represent anything like that.

Mr. COOPER: And for those reasons, Colonel, yesterday you spoke of the operating loss being something like \$3,600,000, which you arrived at by taking the loss and adding to it about \$2,400,000 odd for depreciation. That is not correct, as it represents something on the book costs of the vessels which is altogether out of proportion to what the operating cost should be fairly charged with.

Hon. Mr. STEVENS: Is there any reason why, in connection with the Canadian Government Merchant Marine, Sir Henry, we should not reconstruct the financial situation so as to reflect a fair value for these ships?

Sir HENRY THORNTON: That principle, of course, is obvious, and cannot be successfully attacked. It is true of the Canadian Government Merchant Marine, and it is also true of the greater portion of the Canadian National Railways.

Hon. Mr. STEVENS: That is true, and why should we not do it with the Canadian Merchant Marine, which is not embarrassed with the suit which the other day was threatened against the Canadian National Railways?

Sir HENRY THORNTON: That is one of the things which we have to do in connection with the whole situation.

Hon. Mr. STEVENS: It is manifestly absurd to go on piling up this discrepancy each year, and in this instance if you have a ship lost you have five or six hundred thousand dollars which cannot be covered in any way shape or form by depreciation or insurance or in any other way.

Sir HENRY THORNTON: We have to consider the whole question of policy in respect to the Canadian Government Merchant Marine and the railways. And in connection with it there can be no argument but that it ought to be on a sound financial basis if it is to be continued.

Hon. Mr. STEVENS: Why not do it?

Sir HENRY THORNTON: That is one of the things which we have under consideration, and we may do it.

Hon. Mr. DUNNING: Provided that the general principle meets with approval.

Mr. GEARY: Oh, there is no doubt of that.

Mr. CANTLEY: Certainly that is right.

Mr. GEARY: The more you write it down, the more money you will make.

Hon. Mr. STEVENS: I think that construction could not be put upon it.

Sir HENRY THORNTON: I think that construction could hardly be put upon what Mr. Stevens said or I said. There is a very ample margin in the capital account to write these steamers down to a very fair value, and still be successful.

Hon. Mr. STEVENS: These steamers were constructed at from \$67.50 per ton up to \$100 per ton?

Mr. COOPER: More than that.

Hon. Mr. STEVENS: The lowest was for contracts at \$67.50.

Mr. WOOD: Oh, there were several that went up to considerably more than \$100 per ton.

Hon. Mr. STEVENS: And they are worth to-day to build from \$45 to \$50 per ton.

Mr. WOOD: New ships, I think, could be built around \$45 a ton.

Sir HENRY THORNTON: In connection with ocean rates, you have to understand, as you no doubt do, that there is no regular body which passes upon and fixes ocean freight rates.

Mr. HANSON: That is to enforce the rates, but I think it may be said that there is a body which does fix rates, with equal effect, practically,—the North Atlantic conference.

Sir HENRY THORNTON: And more than that, ocean freight rates are fixed by competitive conditions very largely.

Mr. HANSON: I wish they were.

Hon. Mr. STEVENS: And they would be fixed upon the cost of to-day largely, so that I think you might as well wipe out this terrible deadweight loss which you are having year by year, which is very much against you.

Mr. GEARY: Are you referring to writing off all the ships?

Hon. Mr. STEVENS: I am referring to the \$61,000,000 for ships, which are worth only about \$30,000,000.

Sir HENRY THORNTON: Mr. Stevens is referring to the present condition of the accounts, which was very peculiar.

Mr. CANTLEY: Why not face the situation and write them down to what the value should be.

Sir HENRY THORNTON: We have been carrying that burden both on the Canadian Government Merchant Marine and on the Canadian National Railways for six years, and it is discrediting and disheartening and puts the Canadian situation in a false position.

Mr. CANTLEY: Here there is nothing involved except the mere fact of writing the thing off.

Sir HENRY THORNTON: You and I do not differ one hair's breadth on that.

Mr. GEARY: What would happen to your balance sheet?

Mr. COOPER: We would write off the liability to the government.

Mr. GEARY: And that is carried now as an asset, is it not?

Hon. Mr. DUNNING: I cannot say as to that now, Mr. Geary. My impression is that the notes have been written off as ships have been sold.

Mr. COOPER: The entire Dominion investment is in the net debt, and is not carried as an active asset.



Hon. Mr. DUNNING: When you sold a vessel, your notes to the Dominion with respect to that vessel had to be taken care of, and are taken care of by writing off immediately?

Mr. COOPER: Yes.

Mr. CANTLEY: If you do that, our depreciation account should be increased over 4 per cent. On a new ship you write off half her value in ten years, and there is no ship afloat which is worth half of her cost value in ten years.

Hon. Mr. DUNNING: If we come back next year with a readjusted Merchant Marine, I understand we will have your approval in principle?

Mr. CANTLEY: Yes, you will.

Mr. GEARY: I do not say that you will at all have my approval.

Hon. Mr. STEVENS: You will have, as far as I am concerned. I think it is perfectly ridiculous that we should go on kidding ourselves that we have this \$61,000,000 assets when we have nothing of the kind. And not only that, but you have other charges which are not operating, of \$3,900,000, and that is included in the total deficit of \$57,784,000. At least half of that interest charge should not appear there at all.

Mr. GEARY: It is the same principle which enters into the reconstruction of the National Railways. There are a great many other factors which I would want to consider before I would agree to it.

Hon. Mr. DUNNING: I do not think it is fair to the railway to say that the condition is the same, because in this case the assets to-day are undoubtedly not worth their depreciated book cost, on account of the high original cost. No one is claiming that the railway is in that position, so far as its physical assets are concerned. The parallel is not exact, I would say, for consideration.

Mr. McLEAN (Melfort): It would not make any difference to the Marine administrators if the capital disappeared altogether, because at the present time the capital is not earning operating cost, whereas the railroad is earning more than its operating cost; and it would be more encouragement to the railway if they were put on a sound financial basis.

Mr. GEARY: Who is to say that the capital account of the Canadian National Railways represents the proper capital cost?

Mr. McLEAN (Melfort): I would not say as to that, but it is more encouraging to the railway than the present position is to the Merchant Marine.

Mr. GEARY: A good deal more would have to be said before I would say that I would agree.

Mr. COOPER: I was just thinking, Colonel Geary, we are figuring 4 per cent depreciation on a boat at \$200 a ton while the present day cost would be about \$25; we are therefore figuring at the present time depreciation at about 32 per cent on the present day value.

Mr. GEARY: You would have to write it down to its present day value, to have your book accounts of much good. Your 5 per cent or  $4\frac{1}{2}$  per cent depreciation in ten years would just about bring about the result which Colonel Cantley says that you have, a half value there; and you have the other half represented in your reserves.

Mr. COOPER: We are writing off only about 32 per cent.

Mr. McLEAN (Melfort): You are saying Colonel Geary, that if you cannot write off the proper proportion of the cost for depreciation, you should increase your depreciation?

Mr. GEARY: You should write off the cost every time you lose a ship. If it has not lived out its life, you have not written off anything like its book cost during its life. Supposing it lives a full life, at  $4\frac{1}{2}$  or 5 per cent your depreciation reserves will not anything like meet its book cost.

Mr. COOPER:  $4\frac{1}{2}$  per cent on the present day values?

Mr. GEARY: No, you set up the depreciation on the book cost and say, the percentage is fixed on a twenty year life. If at the end of the twenty years the ship dies, your reserves would equal your book cost?

Mr. COOPER: Yes, surely it would.

Mr. GEARY: It is only in case of an accident that it would not.

Mr. COOPER: It is where the life of the vessel is less,—

Hon. Mr. DUNNING: Or in the case of a sale.

Mr. GEARY: The only time it is right is when you fix upon its life and it lives its whole life.

Mr. COOPER (Reading):

Plant and equipment.. . . .	\$ 59,182 26
Office furniture & fixtures.. . . .	56,050 26
Other.. . . .	285 00
<hr/>	
Total.. . . .	\$61,361,866 68

*Current:*

Cash in banks.. . . .	548,093 77
Accounts receivable.. . . .	218,128 44
Due by agents.. . . .	633,391 09
"Advances to Captains, Crew and Agents	\$ 95,943 10
Inventories of Stores and Supplies .. .	189,417 13
<hr/>	
Total .. . . .	\$1,684,973 53
Unadjusted Debits .. . . .	66,850 02
Insurance Fund .. . . .	3,308,733 75 "

That is the investment of the fund.

Hon. Mr. STEVENS: What is that invested in?

Mr. COOPER: Dominion of Canada Bonds, Guaranteed Bonds and Municipal Bonds,—all high class.

Sir HENRY THORNTON: It is all invested in sound securities.

Mr. GEARY: Trustee securities.

Mr. HANSON: It is an actual fund, then, not invested in ships.

Mr. COOPER: Yes, real money.

On the liabilities side of the balance sheet we have the Capital Stock at \$450,900.00.

Mr. GEARY: The Capital Stock, does that represent cash at all?

Mr. COOPER: The \$900 was cash, I believe.

Mr. HANSON: Those were the Directors' qualifying shares?

Mr. COOPER: Yes.

Mr. GEARY: They were issued as paid up?

Mr. COOPER: They are fully issued stock. There was \$10,000 capital per boat. We have forty-five vessels, and we have \$450,000 of outstanding stock, plus \$900, nine shares for Directors' qualifications.

Mr. GEARY: Paid in cash or arranged?

Hon. Mr. STEVENS: All that is owned by the government.

Mr. COOPER: The \$450,000.

Mr. GEARY: The gentleman who bought the stock get no dividends?

Mr. HANSON: Oh, the government put up that money, too.

Sir HENRY THORNTON: That is a philanthropic movement.



Mr. COOPER: (Reading)

There were issued—

" 6,609 Shares of \$100,000 each. . . . .	\$	660,900 00	
Less:			
Cancelled or held in Treasury in respect of Vessels disposed of, 2,100 Shares		210,000 00	
		<hr/>	\$ 450,900 00
Dominion of Canada Account:			
Notes payable and Advances due Do- minion Government (Secured by Mortgages on Vessels) . . . . .		60,689,671 67	
Other Advances by Dominion Govern- ment . . . . .		10,639,902 45	
Interest Accrued to December 31, 1928		29,005,063 00	
		<hr/>	\$100,334,637 12
Advances by Canadian National Railways . . . . .			\$335,245 47"

Hon. Mr. STEVENS: What was that?

Mr. COOPER: The Merchant Marine was a little short of working capital, and it was necessary that the National Railways should lend them that amount of capital. It is somewhat of a temporary situation.

Mr. GEARY: You have only about \$1,700,000 working capital?

Mr. COOPER: We have not as much as that.

Mr. HANSON: There are current assets.

Mr. GEARY: Don't bother. What do you call your working capital?

Mr. COOPER: I should say it would be everything except the capital assets and the capital liabilities, apart from the investment of the insurance fund, which could not be drawn upon for ordinary working purposes. You see, apart from those unadjusted debits, it is all current.

Mr. HANSON: As a matter of fact from the examination of these accounts it would show you have not any net assets.

Mr. COOPER: We have some working capital. Altogether we have \$1,412,000 of working capital. We had not received at December 31, 1928, our full deficit for that year by an amount of \$533,000. So that the net working capital position at December 31, 1928, was \$879,000; but when we have been reimbursed by the government for our full deficit in 1928, it will be \$1,412,000. But that again is a little short of what we should have.

The CHAIRMAN: Accounts payable.

Mr. COOPER: "Accounts payable, \$1,175,212.97."

Hon. Mr. STEVENS: What are they?

Mr. COOPER: They are vouchers unpaid.

Hon. Mr. STEVENS: Just open account?

Mr. COOPER: Chiefly.

Hon. Mr. STEVENS: That is not large.

Mr. COOPER: No, it is quite current, too, it is in October, November and December accounts.

Mr. HANSON: All over the country?

Mr. COOPER: Yes, coal, fuel and everything.

Hon. Mr. STEVENS: Just current accounts?

Mr. COOPER: Yes.

Mr. HANSON: As against \$218,128.44 of accounts receivable.

Mr. CANTLEY: There are amounts due by agents.

Mr. COOPER: (Reading)

Balances of Uncompleted Voyages... ..	\$200,234 52
Reserve for Depreciation—Vessels .. .. .	19,019,420 43
Insurance Reserve... .. .	2,691,357 07
Profit and Loss—Deficit... .. .	57,784,583 60

The CHAIRMAN: Is it desired by the Committee that we should go through the operating account in detail?

Mr. COOPER: Any questions on the revenue account, I think Mr. Wood or Mr. Doherty would answer.

Hon. Mr. STEVENS: On Operating Account, I remember that on previous occasions there has been a hesitation to disclose the voyage returns, which is quite natural and, I think, probably quite proper, because you cannot disclose to your competitors just exactly what you have secured out of various voyages. But I wonder could we get a statement of the various services you have, and what is the general result from those services? Take all regular and well established services first.

Sir HENRY THORNTON: I think you will probably pretty well clear up this operating account, both as to revenue and expenses, if you would consider as I think you did in past years, the various routes on which we maintain services. Now, as in the past, as Mr. Stevens has said, this discussion should not be made public.

Hon. Mr. STEVENS: I think that is quite fair.

The CHAIRMAN: We will ask the press not to take down anything Sir Henry says on that heading.

Sir HENRY THORNTON: In former years, when we came to discuss the voyage accounts we asked the press to retire.

Hon. Mr. STEVENS: I would suggest that we need not go into the voyage accounts. I am speaking for myself, and Colonel Cantley agrees with me. Other gentlemen may express their own views. If we get a picture of the services, without going into the voyages, I think it should be satisfactory.

Sir HENRY THORNTON: I rather think, Mr. Stevens, I could give you a statement in general terms without going into the respective voyages, which would serve your purpose, and which would disclose nothing more than could ordinarily be obtained.

The CHAIRMAN: Is there any objection to that being made public?

Sir HENRY THORNTON: No, not in that respect.

The CHAIRMAN: Alright, gentlemen.

Sir HENRY THORNTON: The situation is as follows, gentlemen: In 1928 there were 235 voyages, from which the total revenue was \$9,112,484.53, divided as follows: from export revenue, that is to say revenue on exports from Canada, \$5,197,833.70; and on import traffic \$3,914,600.83; making the total above given.

Now, as compared with last year, that is with 1927, we operated 240 voyages from which the total revenue was \$10,212,159.04; of that amount, from exports there accrued \$6,591,054.52; and from import traffic, \$3,621,104.52.

The routes covered in 1928 were: London and Antwerp; Cardiff and Swansea; West India, passengers; West India, freight; Halifax to West Indies; to New Zealand and Australia; to South America; to Newfoundland; and Charters.

In 1927, the routes covered were again: London and Antwerp; Cardiff and Swansea; West Indies, passengers; West Indies, freight; Halifax to West Indies; Australia and New Zealand; Newfoundland; and again, Charters.

Then in addition to that, on the Pacific coast there were the inter-coastal services, the Pacific coastal services, Vancouver to Great Britain, and Vancouver to Antwerp.



Mr. GEARY: And South America?

Sir HENRY THORNTON: That is not in this year's accounts. There were four sailings to South America in 1927.

Hon. Mr. STEVENS: You have cancelled the Vancouver and Great Britain route?

Sir HENRY THORNTON: Yes, in 1927, that was cancelled; that does not appear in 1928.

Mr. JELLIFF: Have you the incoming and outgoing revenue?

Sir HENRY THORNTON: I just gave you that. The export would be outgoing and the import would be incoming.

Mr. JELLIFF: I meant the routes.

Sir HENRY THORNTON: Yes, I have that for each route, but I understood we would not go into any detail.

Mr. JELLIFF: No, I would not ask for that.

Mr. McLEAN (*Melfort*): I notice that there were \$1,100,000 less earnings last year than the year before and the tonnage was greater.

Sir HENRY THORNTON: The tonnage was greater, and the earnings were less due to reduced rates. I think most of it was due almost entirely to reduced freight rates.

Mr. McLEAN (*Melfort*): About 10 per cent reduction.

Mr. BELL (*Montreal*): Has the rate war been settled at all?

Sir HENRY THORNTON: Yes, that has been settled.

The CHAIRMAN: The war is over.

Mr. HANSON: Just in what way has the New Zealand rate been settled, you have taken about two-thirds for yourselves.

Mr. WOOD: We succeeded in getting two-thirds of the voyages because we succeeded in getting two-thirds of the entire business built up during the process of probably two or three years.

Hon. Mr. STEVENS: Is that from eastern ports?

Mr. WOOD: From Montreal in summer, and Halifax in winter, through the Panama Canal.

Hon. Mr. STEVENS: But not from Vancouver to New Zealand?

Mr. WOOD: No.

Mr. GEARY: Is it mostly butter?

Mr. WOOD: No, we do not bring any butter; the other fellow does that. I am sorry we do not bring the butter as we would earn more money.

Mr. HANSON: You are handicapped for the butter trade?

Mr. WOOD: We are not equipped for the butter trade, unfortunately. If it comes, we would like to handle it. There is a ship leaving New Zealand in a week with 12,000 boxes of New Zealand apples coming into Halifax. Those apples are packed in boxes made out of British Columbia lumber.

Mr. JENKINS: Where would those be destined for?

Mr. WOOD: For points in Quebec province, and Ontario, as far west as Fort William.

Mr. GEARY: They do not send any to the Okanagan?

Mr. WOOD: They are all sold to arrive; none are sold on commission.

Mr. BELL (*St. Antoine*): Can we get details of that apple shipment from New Zealand?

Mr. WOOD: Twelve thousand boxes.

Mr. BELL (*St. Antoine*): Would it be out of the way to ask how the freight on ship shipment would compare with the freight on apples from the Okanagan valley to Montreal?

Mr. DOHERTY: Probably 75 cents per hundred on boxes from New Zealand.

Mr. BELL (*St. Antoine*): And what would it be roughly from say the Okanagan Valley to Montreal?

Mr. WOOD: I think it is one dollar and a half per hundred pounds.

Mr. POWER: How does it compare in terms of boxes?

Mr. DOHERTY: I would say about the same.

Mr. WOOD: The same size of boxes.

Mr. JENKINS: What time of the year would they come here?

Mr. WOOD: They are coming now.

Hon. Mr. STEVENS: From now until about the end of July. We have had Australian apples coming to Vancouver for the last thirty-five years, to my knowledge. Of course, we ship them out of British Columbia because of a certain moth. There are no regulations in the east. That is a provincial regulation.

The CHAIRMAN: In view of what Sir Henry has told us, is it still the desire of the Committee to go through those operating accounts, item by item?

Mr. HANSON: Has Sir Henry completed his general statement—

The CHAIRMAN: That is the general statement.

Mr. CANTLEY: There are only one or two items here that I would like to ask a question on; one is, with regard to the cablegram account. The business was not much greater than it was the year before. What was the cause of the difference in figures this year?

Sir HENRY THORNTON: General run of business.

The CHAIRMAN: Do you want to consider the deficit account?

Dr. BELL (*St. Antoine*): Before you leave that, Sir Henry, I see by the newspapers that you are now agents for the Norwegian American Line. Is this a new departure on the part of the Canadian National to become general steamship agents? You might explain that to the Committee?

Sir HENRY THORNTON: Certain steamship companies, for convenience, represent us abroad, and we represent certain steamship companies for convenience here. The details of that Mr. Wood can tell you about, or Mr. Doherty. Is that it?

Mr. WOOD: Just about that. They have come in here and asked us to take care of them, that is all.

Sir HENRY THORNTON: There is a certain traffic advantage as far as the railway is concerned in representing certain steamship companies. It involves no particular significance.

Mr. McLEAN (*Melfort*): You evidently handled your traffic a good deal cheaper last year than the year before; \$1,112,000 less money handled more freight and you only increased your deficit by \$500,000?

Sir HENRY THORNTON: That is right.

Mr. McLEAN (*Melfort*): You handled your business more cheaply, or more efficiently?

Sir HENRY THORNTON: Probably a little of both.

The CHAIRMAN: Any questions, Mr. Geary?

Mr. GEARY: I was going to ask Mr. Cooper to explain that item of interest on notes due Dominion government, \$490,000.



Mr. COOPER: That is in connection with the writing off of the *Raider*, which we explained we had to write out from the depreciation reserve and the interest from the interest accrual account. Of course, that reduced the deficit account.

Mr. GEARY: Then your liability in connection with that was written off by the government too?

Mr. COOPER: Was written off by the government.

Mr. GEARY: Yes, if they had a charge for interest against you—

Mr. COOPER: No, they do not accrue interest in the government accounts. It is not represented in the government accounts in any way.

Mr. GEARY: Then it is on notes due the Dominion Government; the Dominion Government must have those notes?

Mr. COOPER: They have notes, but in the public accounts they do not set up as accounts receivable for interest from the Merchant Marine.

Mr. GEARY: So that was never charged up in the government accounts at all?

Mr. COOPER: No. As a matter of fact, in connection with the Canadian National Railways, for the total interest \$280,000,000, there is no corresponding asset in the government books. It is the same thing with the Merchant Marine.

Mr. HANSON: I would like to ask a question, Sir Henry, which is not germane to those operating accounts. Is it your opinion that the operation of the Merchant Marine has had any effect, and if so what, in cutting down transatlantic and other freight rates, because if it has not I do not see much use in keeping up this Merchant Marine.

Sir HENRY THORNTON: Well, that is not altogether an easy question to answer. I think myself it has had a certain indirect beneficial effect as far as the Dominion itself is concerned. The knowledge of every steamship company that the Canadian Government has a Merchant Marine service which is entirely unhampered in the matter of freight rates, I think, has the effect of probably preventing extortionate rates. But the question is by no means an easy one to answer off-hand.

Mr. HANSON: Your suggestion is this, that it has a deterrent effect in keeping those fellows down?

Sir HENRY THORNTON: I should think that that would be a fair statement.

Mr. HANSON: I call your attention to the situation so far as the Nova Scotia fruit growers are concerned. As you are aware, nearly all the apples grown in the Annapolis Valley are exported to the old country. The Co-operative Growers' Association were notified by the North Atlantic Conference that if they would ship all their stuff by the Conference steamships they would have a rate, we will say, of 90 cents a barrel, but if they did not ship the whole crop it would be \$1.10 for any portion that they did ship. That is about right, is it not, Mr. Wood?

Mr. WOOD: The inference there is that the balance of the stuff would be shipped by tramps. That was to prevent them using tramp ships.

Mr. HANSON: Or anything outside the Conference?

Mr. WOOD: Anything outside the Conference.

Mr. HANSON: For instance, over the Merchant Marine.

Mr. WOOD: Well, I do not think we figured anything on that business at all.

Mr. HANSON: You had no service?

Mr. WOOD: We did carry some apples.

Mr. HANSON: My information was that you did carry it?

Mr. WOOD: We carried some.

Mr. HANSON: And they indignantly refused it, even though it cost them more money. I got this from one of the shippers; with the result that they were penalized on any shipments they made by a Conference ship. Would your service have any effect on breaking up that discrimination—because that is what it is.

Mr. WOOD: No, I do not think so.

Mr. HANSON: You could not help that situation?

Mr. WOOD: Our service is not large enough, an odd shipment on a small ship, would not carry very many; our ships going into Swansea would carry only a few apples. Liners of big capacity would carry 15,000 barrels where we would carry three or four, and give a more frequent service. They would probably ignore us in the matter.

Mr. HANSON: So that your being a factor in the situation would not help?

Mr. WOOD: If we had services to all ports it would make a vast difference; of course London would count, but our ships could not carry very many apples.

Mr. JELLIFF: To get back to the question I asked previously, Sir Henry I think said there had been a drastic reduction in rates. I would like to get an idea of the commodities to which that applied.

Sir HENRY THORNTON: Mr. Doherty will explain that.

Mr. DOHERTY: Without disclosing the services I would like to give you an indication of some of the tonnage increases we have had, with the relatively reduced rates. I cannot call it revenue, but there is one service; for example in 1928 we carried 109,000 tons, and the rate was \$8.12 per ton, whereas in 1927 we carried but 63,000 tons, or 40,000 tons less but at an average freight rate of \$11.40 per ton. I think that will help to explain what we have in mind when we say we have more tonnage but a lower revenue, because of the reduction in the freight rates. I can pick out another one here and there.

The CHAIRMAN: I think what Mr. Jelliff wants is the details of some of the commodities on which freight rates have been reduced.

Mr. DOHERTY: We had automobiles, we had grain—grain rates have been lowered—flour rates have been lowered, rubber tires, and general cargo. Take the Australasian situation for example, one of your members mentioned a few moments ago; that naturally had a bearing. We have had difficulties, as in the trans-Atlantic trade, for reasons that have been already explained, a better type of steamers running in competition with us. We are getting the bulk commodities, paying the lowest rates, whereas the faster and better steamers are getting the fine cargoes, the perishable cargoes, the general cargoes which bring them relatively better rates. We had a service to Newfoundland, which we had to withdraw, because of the competition of a number of small steamers coming in, including Norwegian steamers, prepared to take very low rates, because the importations into Newfoundland declined so far as the St. Lawrence ports are concerned. These are the factors in the general situation.

Mr. HANSON: Your Government subsidized one route to Newfoundland?

Mr. DOHERTY: I do not know that.

Mr. HANSON: The Clark Steamship Company get a subsidy?

Mr. DOHERTY: I do not know whether they do or not.

Mr. HANSON: You know there has been an impasse between the two governments, and the subsidy has not been paid.

Sir HENRY THORNTON: Does that answer your question?

Mr. HANSON: Perhaps it does.

The CHAIRMAN: Any further questions?



Mr. McLEAN (Melfort): Is that reduction in rates distributed over the bulk of your commodities, or concentrated only in a few spots?

Mr. DOHERTY: It has been general, in respect of certain services. It has been brought about from time to time owing to conditions in other services, in connection with certain commodities. For example on grain to the United Kingdom and the Continent, the rates practically throughout the year were lower than the previous year, due to various conditions, all of which were beyond our control. We had our full share of the grain traffic.

Mr. BELL (St. Antoine): There is one question I would like to ask Sir Henry. After your new boats were put on the West Indies trade, you made provision under the West Indies Treaty for the carrying of some seventy thousand bunches of bananas between those ports and Canadian ports. I would like to know how the planters, if this question is not out of order, intend to make use of the Canadian Government Merchant Marine, when the United Fruit Company, with their own boats and their own plantations are having the same privileges in shipping bananas into Canada. In other words, the people who grow bananas will have to pay freight to you, when the United Fruit Company with their own boats and their own plantations can also ship their bananas into Canada with the same privileges. In other words under the Treaty there is no special privilege given to the Canadian Government Merchant Marine; is that correct?

Sir HENRY THORNTON: In the first place, in Jamaica there is what is known as the Jamaica Banana Producers' Association, and they will ship exclusively by our West Indies service. Their production represents a very large proportion—I do not remember the exact percentage, but a very large percentage of the total production of Jamaica. We have made an arrangement with the Georgia Fruit Company, which is a very large fruit-selling company, and which is undertaking to market these bananas throughout Canada. We were obliged to make an alliance with the Georgia Fruit Company, in order to equip ourselves (when I say ourselves I mean the producers and ourselves) in order to equip ourselves with selling agencies, experienced selling agencies, throughout Canada. The Georgia Fruit Company is a very large and important concern. I think, if I remember the figures correctly, they sell something like \$70,000,000 worth of fruit a year.

Mr. WOOD: Something like that.

Sir HENRY THORNTON: They are very experienced, very aggressive, and very resourceful. Answering your question, our feeling is that with the support of the Jamaica Banana Producers, with the support of the Georgia Fruit Company, and with our shipping facilities both by land and water, we shall be able successfully to meet any combined competition we may encounter.

Mr. HANSON: You have not set up a fruit selling agency of your own in Canada?

Mr. WOOD: No.

Mr. GEARY: Bananas seem somewhat important. How many are there shipped?

Sir HENRY THORNTON: You would be astonished at the number of bananas that are sold in the world per annum. I do not know how many; hundreds of millions anyway.

Mr. WOOD: I think Canada consumes between two and three million bunches a year.

Mr. GEARY: Do you lay bananas down in Toronto, Hamilton, or Buffalo as cheaply as they can be laid down by the New Orleans Shipping Company?

Sir HENRY THORNTON: We must, if we are to get the business.

Mr. WOOD: On bananas coming to Montreal there is a real preference; a lower rate than from New York or from Philadelphia.

Mr. HANSON: There is also fifty cents duty?

Mr. WOOD: Fifty cents duty, coming through American ports.

Mr. HANSON: Anything that comes in subsequently?

Mr. POWER: Leaving aside the question of the West Indies and these Treaty obligations, if Parliament in its wisdom decided to-morrow that the whole Canadian Government Marine were to be sold, lock, stock and barrel, what would be the effect on the Canadian National Railways, aside from the Treaty obligations?

Sir HENRY THORNTON: That involves a good many questions. To begin with, the Canadian National would lose a certain revenue, which was given at one of the previous meetings.

Mr. HANSON: It might not necessarily lose the whole of it.

Sir HENRY THORNTON: It might not.

Mr. POWER: Leaving aside the general interest of the country as apart from the Canadian National Railways, I am speaking of what effect, adverse or otherwise, would it have on the railway system?

Sir HENRY THORNTON: We would lose a certain gross revenue; about \$1,500,000.

Mr. GEARY: Between \$1,000,000 and \$1,500,000?

Sir HENRY THORNTON: Yes.

Mr. POWER: At the present time we are losing that on the operation of the Merchant Marine.

Mr. HANSON: I would like to point out that we might not lose all of it; we might lose a part of it.

Mr. POWER: The only advantage is, the general advantage of the producers of bananas in shipping their bananas to Canada.

Sir HENRY THORNTON: The chief advantage is a strategic advantage.

The CHAIRMAN: Will somebody move the adoption of the report? Mr. Hanson moves, seconded by Mr. Power, that the annual report of the Canadian Government Merchant Marine be now adopted.

Motion agreed to.

The CHAIRMAN: Mr. Henry wants to place a statement on file, if there is no objection.



The following table shows, in column 1, the adjustment made in Public Accounts at 31st March, 1919, in respect of advances to constituent parts of the Canadian National Railway System, and column 2, amount of these items as at 31st March, 1928, column 3, the changes that have taken place since the transfer.

	Adjustment from active to non-active assets as of March 31, 1919	Total of non-active assets as at March 31, 1928	Increase since transfer
	\$ cts.	\$ cts.	\$ cts.
Loans to Can. Nor. Ry.....	108,104,453 97	265,408,804 28	157,304,350 31
Loans to G.T.P. Ry.....	84,190,186 70	116,051,932 31	31,861,745 61
Loans to G.T. Ry.....	593,733 33	118,582,182 33	117,988,449 00
Misc. Railway Equipment.....	33,955,867 07	57,154,320 71	23,198,453 64
Loans to Can. Nat. Ry.....		54,550,000 00	54,550,000 00
	226,844,241 07	611,747,239 63	384,902,998 56

NOTE.—The Dominion Investment in C.G. Railways has always been carried in Public Accounts as a non-active asset.

The CHAIRMAN: We have also the estimates to consider. You have read them. Have you any objection or shall we adopt them and close the business?

Mr. HANSON: I think that is a pretty big order, Mr. Chairman.

The CHAIRMAN: Sir Henry Thornton will not be here next week. We will have to adjourn until the following week. Already one-quarter of them have gone through. We might as well pass them and carry them.

Mr. HANSON: That is a pretty large order, Mr. Chairman. I object to that.

The CHAIRMAN: All right.

Mr. POWER: Why do we not have another meeting this afternoon, if Sir Henry desires to go away? Call a special meeting this afternoon, if Sir Henry wants to go away, when all the members can be present.

Mr. JELLIFF: I think last year an itemized statement was given of the amount required.

The CHAIRMAN: Will four o'clock this afternoon suit?

The Committee adjourned until four o'clock p.m.

## AFTERNOON SESSION

The Committee resumed at 4 p.m.

The CHAIRMAN: Let us proceed, gentlemen.

Sir HENRY THORNTON: Mr. Chairman, I take it that you now wish to take up the budget? Is that right?

The CHAIRMAN: Yes.

Sir HENRY THORNTON: We have prepared a memorandum from data with respect to the budget which I think will aid the members in this examination, if you would like to have these distributed.

The CHAIRMAN: If you will have that done, Sir Henry. Resolution 336, amount not exceeding \$53,750,000 to meet expenditures made or indebtednesses incurred—

Hon. Mr. STEVENS: I would suggest that we read this resolution clause by clause.

Sir HENRY THORNTON: If you will refer to that memorandum I think you will find it will make it very easy for you. It is the same analysis of the budget as we made with respect to expenses. On the first page you will find the budget, and then there are separate phrases which give the details of each one of the items listed on the first page.

The CHAIRMAN: Perhaps it will be easier to read the items contained in the report.

Sir HENRY THORNTON: Mr. Fairweather, will you read those items?

Mr. FAIRWEATHER (Reading): "Summary of financial requirements and resources applicable thereto, together with summary of proposed capital expenditures required for year ending December 31, 1929. Interest on funded and other debts." The details are on pages 2 and 3.

Hon. Mr. STEVENS: It is just a repetition of what we have been-over?

Sir HENRY THORNTON: Yes.

Mr. FAIRWEATHER (Reading): "Grand Trunk Pacific Guaranteed Interest." The details are on page 3. "Dividend on G.T.R. 4 per cent Guaranteed Stock." The details are on page 4.

Hon. Mr. STEVENS: That is the stock you arranged for recently, and everything was satisfactory?

Sir HENRY THORNTON: Yes. I am having them read, so we will not lose sight of anything.

Mr. FAIRWEATHER (Reading): "Sinking Fund Payment." The details are on page 6.

Hon. Mr. STEVENS: This sinking fund is set up—

Mr. FAIRWEATHER: On the securities shown there.

Hon. Mr. STEVENS: Why are they not provided for in a general way?

Mr. FAIRWEATHER: They are provided for in the trust deeds.

Hon. Mr. STEVENS: It is not general.

Sir HENRY THORNTON: No.

Mr. FAIRWEATHER (Reading): "Equipment Principal payments." The details are on page 7.

Hon. Mr. STEVENS: This is usually paying off maturing equipment bonds?

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Are these all standard equipment bonds, or are some of them special?

Sir HENRY THORNTON: They are all standard. Are there any further questions on this item?

Hon. Mr. STEVENS: No.

Mr. FAIRWEATHER (Reading). "Retirement of Capital Obligations". The details are on page 8.

Hon. Mr. STEVENS: What is that "C.A.T. Company account," the *Canadian Harvester* and the *Canadian Gunner*?

Mr. FAIRWEATHER: That represents payments due on the ships transferred from the C.G.M.M. to one of the subsidiaries operating on the Great Lakes.

Hon. Mr. STEVENS: "The Canadian Northern system branch bonds"—is that at full maturity?

Sir HENRY THORNTON: I think it is, yes.

Mr. COOPER: That is full maturity?

Hon. Mr. STEVENS: "The G.T.M.C. Car Ferry Company" is that on the Great Lakes, Michigan or Milwaukee or some place?

Sir HENRY THORNTON: Yes.



Hon. Mr. STEVENS: How is it working out? We were discussing it last year.

Sir HENRY THORNTON: It is working out very satisfactorily, and probably before long we shall want to add to the car ferry.

Mr. FAIRWEATHER: (Reading). "Acquirement of Securities". The details are to be found on page 9.

Hon. Mr. STEVENS: What investment is this, "Can. Mar. "; it is not very clear here.

Mr. FAIRWEATHER: The Canadian Marconi.

Sir HENRY THORNTON: That is an offer which was made to ourselves and to the Canadian Pacific Railway that we should each acquire in the interest of our respective companies \$100,000 worth of this stock. We concluded, with the Canadian Pacific Railway, that it was a wise thing to do in the interests of our respective telegraph companies.

Hon. Mr. STEVENS: What contact does this give you?

Sir HENRY THORNTON: It is a transatlantic wireless company and is in a fair way to make very substantial progress. Amongst other things will be developed a new system of telephoning by wireless. It might be of interest to you to tell you that I telephoned from my house in Montreal to their station in England, and the reception was just as clear as if I had been talking to someone in Montreal, much clearer than the other means of telephonic communication which is now being used. That has not yet been brought into commercial use, but it shortly will be.

Mr. POWER: Is this the Canadian Marconi Company?

Sir HENRY THORNTON: Yes.

Mr. POWER: Is this the stock which had such a flurry on the market last year?

Sir HENRY THORNTON: Not the same stock; it was a common stock which jumped from about \$6 a share to \$30 a share in spite of what anybody could do to prevent it.

Mr. POWER: Someone said it was not worth more than that?

Sir HENRY THORNTON: That is the stock; that is the company, but this is not the stock, it is preference stock.

Hon. Mr. STEVENS: One hundred dollars par?

Sir HENRY THORNTON: Yes.

Mr. POWER: You paid par value for it?

Sir HENRY THORNTON: Yes. It pays six per cent.

Mr. POWER: When was that?

Sir HENRY THORNTON: November 15th, 1928.

Mr. POWER: That is just about the time this flurry took place. I was wondering if there was any relation between that and the purchase of the stock?

Sir HENRY THORNTON: I think it is altogether probable that the market discovered that the C.P.R. and ourselves had both bought an interest in it, and that was used for stock jobbing purposes. The stock pays six per cent interest.

Hon. Mr. STEVENS: When did you buy the initial interest? Was it bought the year before.

Sir HENRY THORNTON: We bought it at one hundred dollars a share and accrued interest.

Hon. Mr. STEVENS: You got that interest?

Sir HENRY THORNTON: Of course.

Hon. Mr. STEVENS: You bought it about the end of the year.

Sir HENRY THORNTON: Yes.

Mr. FAIRWEATHER: (Reading) "Total Financial Requirements." That is simply a summation of the above, less resources, excluding eastern lines. The details are on page 10.

Hon. Mr. STEVEN: Estimated?

Mr. FAIRWEATHER: (Reading) "Estimated. Deficit Eastern Lines, excluding interest on H. & S.W. Ry., first mortgage bonds." The details are also on page 10.

Mr. GEARY: Just shortly, how do you make your estimates, by relation to the previous year, by computation and so on?

Sir HENRY THORNTON: We put down what we think is an estimate of the gross earnings of the year, and estimate the expenses, having regard to the figures of the previous year. That gives us the net earnings and then we make the usual deductions from net income, and that gives the income applicable to this particular item. In making that estimate we must be very conservative. We must be quite sure that the amount available will be fully as large as we estimate; in fact it generally is more.

Mr. GEARY: How do you hit it, as a rule?

Sir HENRY THORNTON: You mean, how did that work out last year? Mr. Cooper knows that.

Mr. GEARY: How close did you come to your estimate last year?

Mr. COOPER: In the 1928 budget we estimated \$41,814,919, whereas the actual amount was \$49,319,343.

Sir HENRY THORNTON: Of course this also involves very largely the crop. We had a much larger crop than we estimated upon.

Mr. GEARY: In the season?

Sir HENRY THORNTON: In the season, and it is a pretty dangerous thing to estimate upon, because so much depends upon the crop. For instance, nobody can estimate to-day with any certainty what the crop is going to be, consequently the estimate has to be very conservative.

Mr. GEARY: You make an estimate then add something to that?

Sir HENRY THORNTON: We make what we regard as a fairly safe estimate, and under these circumstances the actual results are invariably better than the estimate.

Mr. FAIRWEATHER: (Reading) "Decrease account operation Maritime Freight Rates Act 1927." That is an estimate, showing the net figure on resources.

Mr. GEARY: Wait until I get that figure. First of all, you show a deficit on eastern lines, do you not, of \$4,000,000.

Mr. FAIRWEATHER: Yes.

Mr. GEARY: Then you show decreases in the Maritimes; that is the twenty per cent?

Mr. FAIRWEATHER: Exactly.

Mr. GEARY: Where do you take that, as coming back?

Mr. FAIRWEATHER: Look down at the bottom, and you will see it again. (Reading) "Deficits in net income."

"Net Financial Requirements." That is a subtraction of the two items.

"General Additions and Betterments." You will find a classification of that by lines, on page 11, and following that a classification by engineering, classifications on pages 12 and 13, and by operating regions on the succeeding pages.



Sir HENRY THORNTON: Page 11 shows the distribution of the amount.

Hon. Mr. STEVENS: Without going into all the details, on the subsequent pages, as far as I am concerned, I might ask you briefly as to these three or four items; "Eastern Lines—\$4,590,439;" is that for purchases including estimated purchases on any of these lines.

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: Or is it purely maintenance and new expenditures?

Mr. FAIRWEATHER: That is for general betterments entirely.

Hon. Mr. STEVENS: On existing lines?

Mr. FAIRWEATHER: Yes.

Hon. Mr. STEVENS: The same answer applies to the other three items?

Mr. FAIRWEATHER: Yes, sir.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: \$28,000,000 over the whole system for betterments?

Mr. FAIRWEATHER: Only railway lines.

Sir HENRY THORNTON: Only railway lines. Then there follows the Niagara, St. Catharines and Toronto Railway and subsidiary companies, telegraphs and telephones.

Hon. Mr. STEVENS: That \$28,000,000 would include what we discussed very fully the other day, for last year, such as the relaying with one-hundred-pound rails. This is charged up to increases, additions, and so forth?

Sir HENRY THORNTON: Exactly.

Hon. Mr. STEVENS: But your maintenance is included in the item over here?

Sir HENRY THORNTON: Straight maintenance is chargeable to expenses, and that you have already dealt with. This only deals with additions to the property, exclusive of branch lines.

Hon. Mr. STEVENS: What was it last year, I have forgotten. Does the twenty-eight million correspond with last year?

Mr. FAIRWEATHER: General additions and betterments, \$25,685,385 was the estimated amount, and the amount expended was \$23,000,000 odd.

Hon. Mr. STEVENS: You are going ahead at a fairly good rate. There is quite an increase, five million dollars this year. Do you think that is warranted?

Sir HENRY THORNTON: Part of that was occasioned by such things as rail requirements in the construction of the Hudson Bay Railway. It would be unwise, unnecessary, and uneconomical to lay on that railway any new one-hundred-pound rails. It would be very much better to apply the new one-hundred-pound rail to that part of the railway over which high-speed passenger and freight trains are maintained. We are trying to confine our relaying rails to good quality. We found that ordinary rail renewals would not produce a sufficient amount of good relaying rail for the Hudson Bay Railway. Therefore we increased our rail program in order to take care of that, which had the effect of anticipating to a certain extent the rail requirements which we ordinarily would have thought wise this year.

Mr. GEARY: Have you a credit with the Hudson Bay Railway?

Sir HENRY THORNTON: That is one of the things Mr. Stevens drew attention to, the fact that we have been, as he described it, making fairly good progress in the matter of additions to capital; that is one thing. Another thing is, our desire to hasten as fast as prudence would permit the introduction of improvements between Montreal and Toronto and Toronto and Sarnia. There was a large increase in our gross earnings, which necessitated the purchase of additional heavy power this year, as I think I explained to you in an earlier

session of the Committee. Naturally, a railway, like any other enterprise, if it is experiencing good times, finds it wise and prudent to hasten the improvement of the property.

Hon. Mr. STEVENS: I notice among the details on page 13 you have "Hotels and Sleeping and Dining Car Department—\$5,778,715," which is included in the \$28,000,000?

Sir HENRY THORNTON: Yes. It is included in the amount charged to additions and betterments this year.

Hon. Mr. STEVENS: That would include the Halifax hotel and the Vancouver hotel?

Sir HENRY THORNTON: And the additions to this hotel here.

Hon. Mr. STEVENS: Then you have an item here of \$2,000,000 for commercial telegraph facilities?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: You mentioned the other day something about the Maritimes taking over the Western Union?

Sir HENRY THORNTON: That item includes that, and also additions we propose to make to our telegraph facilities between Winnipeg and the Coast, extensions of what is known as the carrier system. I might say that those additions to the telegraph facilities have been highly profitable.

Hon. Mr. STEVENS: Another one here is the Canadian National Steamship Company Limited. I thought we had pretty well gone over steamships this morning. I see an item here of five and a quarter millions.

Sir HENRY THORNTON: That is for three new boats being built for the Pacific Coast business.

Hon. Mr. STEVENS: Coastwise vessels?

Sir HENRY THORNTON: Coastwise vessels, plying between Prince Rupert and Vancouver. Nobody will be more familiar with that situation than yourself.

Hon. Mr. STEVEN: I think you are doing wisely there. That coastwise service is paying?

Sir HENRY THORNTON: It is paying, and it is increasing with great rapidity.

Hon. Mr. STEVENS: I think your competitors are increasing also.

Sir HENRY THORNTON: Yes. They have done so.

Hon. Mr. STEVENS: When will these ships be ready?

Sir HENRY THORNTON: Next year.

Hon. Mr. STEVENS: In 1930?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Were they ordered this year?

Sir HENRY THORNTON: They were ordered this year.

Hon. Mr. STEVENS: The "Prince Rupert" and the "Prince George" have done valiant service?

Sir HENRY THORNTON: They are valiant ships. We have got our money back from them many times over.

Hon. Mr. STEVENS: They are valiant ships, and are well run.

Mr. MILNE: What type of steamers are you putting on?

Sir HENRY THORNTON: It is rather larger than the present coastwise steamers. I do not know whether you have seen the new C.P.R. boats, but it is that type of boat.

Hon. Mr. STEVENS: A fast, up-to-date coastwise steamship of about 3,000 or 4,000 tons?



Sir HENRY THORNTON: I have these particulars.

Hon. Mr. STEVENS: Will they run up to Skagway?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: In the summer both will run to Skagway?

Sir HENRY THORNTON: Yes. In the winter they only run part of the way. These are the particulars of those boats: Length, 365 feet between perpendiculars; length over all 384 feet; width 57 feet; maximum load draft 16 feet 6 inches; dead weight 1,000 tons.

Mr. McLEAN (Melfort): What did you say the dead weight was?

Sir HENRY THORNTON: 1,000 tons at load draft. That is only the dead weight. They are passenger ships. First class passengers 330; third class passengers, 70; speed  $22\frac{1}{4}$  knots.

Mr. McLEAN (Melfort): Oil-burning?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): Where are you building them, Sir Henry?

Sir HENRY THORNTON: Campbell Laird, Birkenhead, near Liverpool.

Mr. CANTLEY: Those people are getting a lot of ship-building contracts.

Sir HENRY THORNTON: They are out-bidding everybody.

Mr. CANTLEY: What is the explanation of that?

Sir HENRY THORNTON: I do not know. They have not made any money out of the last boats they built. They took these ships away from all the other bidders. They are a very responsible firm of ship-builders.

Mr. CANTLEY: Oh yes.

Hon. Mr. STEVENS: You have an item of \$2,400,000 balance of Grand Trunk lines, general betterments?

Sir HENRY THORNTON: That item was put in to take care of the period until the Inter-State Commerce Commission improves the financing, the reorganization.

Mr. CANTLEY: There is a very small item of \$1,250 in the Prince Rupert Dry Dock. What is that? Operating Costs?

Sir HENRY THORNTON: I do not know what it is. It is a small thing, for tools, probably.

Hon. Mr. STEVENS: It would not pay for anything, unless it was a watchman.

Sir HENRY THORNTON: It is probably tools. Unfortunately you have to put it down.

Hon. Mr. STEVENS: While mentioning the dry dock, have you any record of its operations?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: As we have not had anything on it, it might be interesting to mention the number of ships and the gross revenue, the expenditures, and the net revenue.

Sir HENRY THORNTON: Last year, the revenues were in round figures \$109,000; the expenses, \$104,000; net revenue \$4,400.

Hon. Mr. STEVENS: The number of ships?

Sir HENRY THORNTON: The ship repair work offering in 1928 was less than half the amount offered in 1927, and the floating dry dock was used to considerably less extent than in the preceding year, and only a very small number of large vessels were dry-docked during the year. There was only one outstanding feature in the year's transactions, that is the securing of the contract for

the construction of an eighteen car steel ferry barge for the Canadian National Railways at a price of \$143,000. This was secured in open competition with other yards on the B.C. coast. This car barge was 75 per cent completed at the end of the year.

In 1928, two wooden fishing boats were built by the dry dock, as compared with five vessels of this class in 1927.

The bulk of the work handled by the dry dock, outside of the one large contract for the car barge, consisted of ship repairs and commercial work, the later consisting of machinery repairs and similar work for mining companies and other industrial firms in the neighbourhood of Prince Rupert.

The loss which occurs through the operation of the dry dock is directly due to the lack of sufficient business to profitably employ the staff which must be maintained in order to keep the dry dock in service.

The dry dock has an agreement with the city of Prince Rupert by which the city operates the power house for the dry dock, and in 1927 this power house operation was handled by the dry dock and classed as commercial work.

As regards ship repairs, the revenue in 1928 was \$66,000, as compared with \$171,000 in 1927. There were no expensive repair jobs carried out in 1928. Only one Canadian Government Merchant Marine vessel, and one Canadian National Steamship vessel was docked.

Hon. Mr. STEVENS: That is a very small return. What is the investment in that? If I recall it aright, it was about a million and one half.

Sir HENRY THORNTON: Probably about that.

Mr. CANTLEY: How did we acquire that?

Sir HENRY THORNTON: We inherited that when we bought the Grand Trunk Pacific.

Hon. Mr. STEVENS: It is a good dock, and it is too bad that it cannot be used more extensively.

Sir HENRY THORNTON: Yes, it is a first class dock.

Mr. GEARY: Work up a few wrecks.

Mr. CANTLEY: It is situated in the wrong place. That is the only trouble.

Sir HENRY THORNTON: Anything else, gentlemen?

Mr. CANTLEY: What are you doing with the \$359,000 in the Rail River Coal Company, the next to the last item.

Sir HENRY THORNTON: Equipment for crushing, sizing and cleaning coal, \$120,000; new ventilating and safety shaft, \$150,000; additional lighting and miscellaneous equipment, \$89,000.

Hon. Mr. STEVENS: A moment ago something was mentioned about the Grand Trunk Western. A question occurred to me that I should have asked the other day, and I might be permitted to ask it now, in connection with the re-financing. Is it possible under the American laws controlling the Grand Trunk Western lines, to use any of the funds raised out of any re-financing scheme outside of the United States territory?

Sir HENRY THORNTON: Well, I think that is a question that may be open to legal argument. I have thought that we could; but have you had any opinions about it, Mr. Henry?

Mr. HENRY: I do not know whether you can or not. I do not think you can, Sir Henry.

Hon. Mr. STEVENS: The reason I ask that is because the impression was conveyed to my mind the other day that the excess would be available for the general system.

Sir HENRY THORNTON: That is what I have always had in my mind, but I am not prepared to verify it.



Mr. HENRY: Moneys which were raised for improvement of the property would have to be put into the property; but the Canadian National Railways which invested cash in the property would be repaid by the proceeds of those funds. Is that the point you have in mind?

Hon. Mr. STEVENS: Yes.

Mr. HENRY: Well, the Canadian National Railways will get it, and will be able to spend it upon its lines.

Hon. Mr. STEVENS: As I understand it, when we went over it the other day it was stated that practically all of the existing securities outstanding would be exchanged for new securities.

Mr. HENRY: There are \$14,000,000 in securities in the hands of the public now, and they would be let as they are. The balance of the investment in the property is in the form of advances by the Canadian National, open account, which would be repaid either in the form of bonds or stock as the case may be. And that stock or bonds would go into the possession of the Canadian National Railways.

Hon. Mr. STEVENS: In that case you could secure the benefit of it.

Mr. HENRY: There is no question about that, Mr. Stevens.

Hon. Mr. STEVENS: That is all, except this, that you would have to get authority before you could make the issue of the fifty or sixty millions?

Sir HENRY THORNTON: Oh yes, we have to have authority from the Interstate Commerce Commission.

Hon. Mr. STEVENS: Will they issue authority for the repayment of this?

Sir HENRY THORNTON: Oh yes.

Mr. HENRY: Anything which you can prove as a reasonable capitalizable item—about sixteen million dollars, including equipment.

Mr. GEARY: Securities or stock?

Mr. HENRY: Bonds.

Mr. GEARY: Those at present existing will retain their place.

Mr. HENRY: They will retain their place.

Mr. GEARY: Will the new issue rank *pari passu* with those bonds?

Mr. HENRY: This will be a second mortgage on such property as is covered by that mortgage, and the first charge on such property as is not covered; a lot of the property is free.

Mr. GEARY: It is these bonds which will net you a return, and he is concerned about the surplus. That would have to go into the property, I would think.

Mr. HENRY: Not necessarily.

Mr. GEARY: It is issued at so much a mile, I suppose?

Mr. HENRY: No, it depends on what value you can prove as a capital item; and that will be based upon the road and the betterments.

Mr. GEARY: It has no relation to the usual bonding power per mile?

Mr. HENRY: No.

Mr. GEARY: Then they will want to know how that money is applied, will they not?

Mr. HENRY: I think you are mixing up another question with it. The position is a recapitalization of a known investment or an investment that can be proven; and the Canadian National Railways has that investment. Now it has the right to recoup itself through the sale of the bonds it gets. Any surplus, of course, would be a Grand Trunk Western surplus.

Mr. GEARY: And that, as I say, would have to be spent on the property?

Mr. HENRY: Unless that surplus were of such a nature that it could be declared a dividend on the stock.

Mr. GEARY: And the order, on your application, would state what you may do with that?

Mr. HENRY: Yes.

Mr. CANTLEY: From the amount spent on the Rail and River Company, \$360,000 roughly, I take it that that must be roughly rehabilitating that property.

Mr. HENRY: No, that was on the present workings of what is known as No. 6, which are over two miles from the entry, so that in case of accident the miners would be in a very dangerous position and without adequate means of reaching safety. Three years ago the company was ordered to put in a new shaft, but as matters were slack this work was allowed to remain in abeyance at the time.

Mr. CANTLEY: That is you were not working it?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: In view of the very low price of coal and the number of companies that can be worked to-day, do you think it is advisable to go into spending much money there?

Sir HENRY THORNTON: Yes; we went into that very carefully, and we found that it cost a very large sum to maintain the mine in idleness, and the additional cost of operating the mine was sufficient to justify opening it.

Mr. CANTLEY: Roughly, what is the cost of winning coal there?

Sir HENRY THORNTON: It is running about \$1.45 a ton now.

Mr. McLEAN (*Melfort*): Is that the total cost, Sir Henry? Mr. Cantley used the word "winning."

Sir HENRY THORNTON: That is the cost per ton of coal produced.

Mr. McLEAN (*Melfort*): The total cost?

Sir HENRY THORNTON: Yes, the total cost.

Hon. Mr. STEVENS: At the pit head?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: That is the total cost of the coal produced delivered in the cars at the pit head, I take it?

Sir HENRY THORNTON: That is right.

Mr. GEARY: Sir Henry, I notice an item that I think is of interest to the public, in a way; it is smaller than I thought it was, the radio department, \$46,450. That is your annual cost for the whole service, is it?

Mr. HENRY: That is additional capital.

Sir HENRY THORNTON: It is new installation on ten cars, one installation for communication between the front and rear end of freight trains at \$12,000, which we are experimenting with; replacement of receiving sets on trains, \$20,000; studio at Chateau Laurier, \$3,500; new equipment at Ottawa, \$2,300; and some other miscellaneous items.

Mr. GEARY: Can you tell me the cost of the radio, such as the one you have just indicated, the general passenger recreational radio, if I might call it that; what is the annual expenditure on it?

Sir HENRY THORNTON: Can you answer that, Mr. Cooper?

Mr. GEARY: The total investment.

Mr. COOPER: The total investment in radio is \$126,000.

Sir HENRY THORNTON: That is the capital investment?

Mr. COOPER: Yes, sir.



Sir HENRY THORNTON: The next question is, how much it is costing a year?

Mr. COOPER: The cost of operation?

Mr. GEARY: Yes.

Mr. COOPER: The cost of radio operation in 1928 was \$277,000. It is shown in the annual report under operating expenses, page 20.

Hon. Mr. STEVENS: Is that all your operations in radio?

Sir HENRY THORNTON: Yes, everything.

Mr. GEARY: I was thinking more of what I call the recreational radio for the passenger trains. My question might include everything, a certain amount for business and a certain amount for entertainment.

Sir HENRY THORNTON: I am afraid we have not got that separated in that way, Colonel Geary, that is, the cost of what you describe as recreational radio.

Mr. GEARY: I meant just for the entertainment of guests in hotels, and on passenger trains, and, as Mr. Stevens reminds me, the station at Vancouver. Is that a broadcasting station?

Sir HENRY THORNTON: That is a broadcasting station.

Mr. GEARY: Have you got a wave length of your own?

Sir HENRY THORNTON: Yes.

Mr. GEARY: And that is where you broadcast from and there only?

Sir HENRY THORNTON: No. We have a station at Moncton; we have one at Ottawa, and we have one at Vancouver; and then we have arrangements with some of the press broadcasting stations for the use of their stations, certain nights a week.

Mr. GEARY: You buy just so much time from them?

Sir HENRY THORNTON: Yes, but three stations we own ourselves—Moncton, Ottawa and Vancouver.

Mr. GEARY: Do you rent out time on those?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: You do at Vancouver, do you not?

Sir HENRY THORNTON: No.

Mr. GEARY: A very persistent organization called the Bible Students might call and see you. What is the object of that, just propaganda?

Sir HENRY THORNTON: Advertising. But there will emerge before very long a somewhat interesting commercial use that I cannot divulge at the moment. We are also experimenting in the use of the radio between the engine and the caboose of freight trains, which I think has a considerable field.

Mr. GEARY: As long as the caboose stays on the freight train?

Sir HENRY THORNTON: As long as the train is intact.

Hon. Mr. STEVENS: As long as you do not get the engineer listening in some broadcasting station with some jazz music.

Sir HENRY THORNTON: We had a very amusing incident about the first of the year. We had a hook-up from the Atlantic to the Pacific, with an extremely good concert, and there was a freight conductor out west of Edmonton on a broken down train, and he promptly cut in, of course, on the telephone wire to telephone for help and, to his surprise, he found himself listening to a concert. But, of course, that spoiled the concert; it broke the connection, and the despatcher told him to get off the wire. He said, "No, I won't," and it was thirty minutes before we could chase him off.

Mr. McLEAN (Melfort): What is the approximate capital cost of installation on your trains?

Sir HENRY THORNTON: \$27,000.

Mr. McLEAN (*Melfort*): And the maintenance of that would be?

Sir HENRY THORNTON: It would be chiefly the services of the operator.

Mr. CANTLEY: Betterment supplies to locomotives \$1,000,000, the fourth item from the top of page 13.

Mr. HUNGERFORD: That is the application of stokers and feed water heaters to locomotives that were not originally equipped with them, and things of that kind, modern equipment for locomotives which were not previously equipped with it.

Mr. GEARY: Where do you use those larger class locomotives that you have put on lately, the largest class you have?

Mr. HUNGERFORD: They are running between Montreal and Sarnia principally.

Mr. GEARY: I was in a smoking car not long ago, coming through the yard at Danforth, and some people who seemed to know about railways were talking and they said the report was that they were too big. Is there anything in that?

Mr. HUNGERFORD: Not a thing. They are not quite big enough.

Mr. GEARY: They said the overhead was too heavy.

Mr. HUNGERFORD: Absolutely nothing in it. They are the most economical engines we have.

Mr. GEARY: Of course, they have to have a good road to travel on.

Mr. HUNGERFORD: Oh, yes, a good road. They pull freight trains up to 6,000 tons.

Sir HENRY THORNTON: They are very economical locomotives.

Mr. JELLIFF: Take the item "New Equipment."

Sir HENRY THORNTON: Do you happen to remember what it was, Mr. Hungerford?

Mr. HUNGERFORD: Speaking from memory, 60 locomotives, and somewhere about 75 passenger cars, and something over 6,000 freight cars.

Sir HENRY THORNTON: This only includes 25 per cent of the total cost, and the rest of it will be financed from Equipment Trust. But the equipment which it is supposed to get is 60 locomotives, 75 passenger cars and about 6,000 freight cars.

The CHAIRMAN: Any other questions?

Mr. GEARY: Yes, I want to ask about the item on page 13, Oshawa Electric, Thousand Islands, and Electric Lines in Ontario. Why are they separated, electric lines in Ontario, and then Oshawa Electric?

Sir HENRY THORNTON: They are separate corporations.

Mr. GEARY: These electric lines in Ontario are the ones you run yourselves?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Under your own name?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Do you run the Niagara-St. Catharines?

Sir HENRY THORNTON: Yes, we run that.

Mr. GEARY: Under your own name?

Sir HENRY THORNTON: No. It is run under Canadian National Electric Railways.

Mr. GEARY: Is there any capital expenditure on that this year?



Sir HENRY THORNTON: Sub-station Port Dalhousie, page 21.

Mr. GEARY: Yes, that is quite all right, but where is it in your summary? Is that under Electric Lines in Ontario?

Mr. HENRY: That is the same thing.

Mr. GEARY: The Oshawa Electric Railway is also run as the Niagara-St. Catharines is, as a separate corporation?

Sir HENRY THORNTON: Yes, that is right. Page 22, I think, Colonel Geary.

Mr. GEARY: You took this over from one of the railway companies, or private ownership?

Sir HENRY THORNTON: No. The Oshawa Electric came with the Grand Trunk, and the other came with the Canadian Northern.

Mr. GEARY: Are those operating at cover cost?

Sir HENRY THORNTON: We are making a profit on those.

Mr. GEARY: The Niagara and St. Catharines railway got a raise in fares recently which put them on the right side.

The CHAIRMAN: Shall the item carry?

Sir HENRY THORNTON: We were talking about general additions and betterments. The next item is "Central Vermont requirements." That, I think, I explained previously. Then there is new equipment on the Grand Trunk Western Lines and discount on securities to be issued.

Hon. Mr. STEVENS: All of which will be returned out of the new issue?

Sir HENRY THORNTON: That is right.

Mr. GEARY: And the Express you are running as a department?

Sir HENRY THORNTON: Yes. For the purposes of economy we are running that as a department of the railways under the direction of the Traffic Department. You will find on page 24 the total to be \$105,000 estimated capital expenditures for the Express Department.

Mr. GEARY: I suppose that you must put those in as capital right along?

Sir HENRY THORNTON: Yes. You cannot help it. Under the Standard accounting rules we cannot do anything else.

Mr. GEARY: Ordinarily they are paid out of income, as a matter of fact, as far as the income will go?

Sir HENRY THORNTON: No. On the railway where the charges to various accounts are laid down with precision, we cannot depart from them.

Hon. Mr. STEVENS: You do not set up a depreciation account for horses? When they die you sell them for sausage meat?

Sir HENRY THORNTON: Presumably, and very good sausage meat they make too—our horses.

Mr. GEARY: You are used to dead horses in this business, are you not?

Sir HENRY THORNTON: Yes, but we have ceased to traffic in white elephants.

Hon. Mr. STEVENS: I rather agree with Colonel Geary's query that some of these items are pretty far fetched to come under Capital.

Mr. HENRY: They are additions to property.

Sir HENRY THORNTON: I do not know of any other way of handling it.

Mr. HENRY: It is not replacing property; it is additions to property.

Sir HENRY THORNTON: You cannot depart from any of these accounting rules by so much as a penny. To a practical and perhaps sensible person they may look absurd, but we cannot help it.

Mr. GRAY: When dealing with millions it is all right, but when it comes down to a few thousands it looks small.

Hon. Mr. STEVENS: I do not want to appear small, but if you add up the small items you will soon find that you are reaching a very large figure.

Sir HENRY THORNTON: If we departed from this system we would soon have the chartered accountants on our backs, saying that our charges were improperly made.

Mr. GEARY: If this were run as an express company it would not go into Capital?

Sir HENRY THORNTON: I think that is right, but I am not certain.

Mr. HUNGERFORD: These are for additional facilities over and above what the company has had.

Hon. Mr. STEVENS: Take these items making up the \$105,000. How do you treat the retirements of those, Mr. Cooper, when they wear out?

Mr. COOPER: Taking the case of a horse?

Hon. Mr. STEVENS: Or a tarpaulin. That strikes me as an extreme thing to put into capital.

Sir HENRY THORNTON: Take the horse.

Mr. COOPER: We know the cost of each horse and when a horse goes out of service we write it out of the property account and charge it to operating expenses. If we buy a new horse we charge that to the Property Account. Our Property Account, therefore, represents exactly what we have.

Hon. Mr. STEVENS: You treat this the same as you do your freight cars?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And tarpaulins?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: How do you keep track of all these things?

Mr. COOPER: In connection with our express department we have a more complete record than any other department. We have a complete inventory, and can tell you the cost of every unit of equipment which they have. If we did not write these things out and take in the cost of the new, our inventory would not be worth anything. That is to say, we would have on our inventory property which did not exist.

Hon. Mr. STEVENS: It strikes me as a pretty small thing to look after a tarpaulin.

Mr. COOPER: It is a small business in individual items. The revenue of the Express Department is on a very small basis, but in the aggregate it amounts to a very considerable sum.

Mr. GEARY: That would seem to me to be a running expense. For instance, tarpaulins will last no longer than axle grease.

Sir HENRY THORNTON: You either have to have an accounting system or you do not, and if you have it, you must follow it.

Mr. GEARY: It is an I.C.C. rule?

Sir HENRY THORNTON: Formerly, before the introduction of the present Inter-State Commerce Commission regulations, railways more or less handled their accounting in the United States as they wished. Profitable companies would charge a good many items to expenses which properly belonged to Capital, and on the other hand the poorer properties sometimes would do the reverse. With such a profitable company as the Pennsylvania Railroad, for example, the old rule was a dollar for the company and a dollar for the shareholders. That is to say, the surplus was divided into two parts at the end of the year, and dividends were paid on the stock and the rest of it was ploughed



back into the property. Now, in later years, the Inter-State Commerce Commission came along and said, "No, that is not good accounting practice; it may be good commercial practice for this institution or that institution, but taking it on a whole throughout the United States it is bad accounting practice." Consequently the railways were tied down to very precise regulations and many of them had to proceed upon a much less generous policy than they had pursued.

Hon. Mr. STEVENS: I should think—addressing myself to Mr. Cooper—that you would find great difficulty in keeping track of those many items such as harness and tarpaulins all over the country.

Mr. COOPER: This item of harness and tarpaulins is additional equipment.

Hon. Mr. STEVENS: If you do keep track of them and write them off, as you suggest, it should not be charged in as Capital; if you do keep track of them it seems to me you have a very excellent system worked out almost to the last use of a pin.

Sir HENRY THORNTON: That is exactly what I understood Mr. Cooper to say that we have.

Hon. Mr. STEVENS: I must say that I think you have a mighty fine system.

Mr. GEARY: This is under regulation.

Mr. COOPER: We do go to an extreme refinement in the case of the Express Department because, as I say, the individual items in that department are very small. We have a rule on the railway—which might relieve your mind—that no item of expenditure of less than \$100 goes into the capital account. If it is less than \$100 it is absorbed in operation.

Mr. CANTLEY: The fourth item from the bottom—is that the President's private car?

Sir HENRY THORNTON: I suppose that is for the agent to run around in for supervising purposes.

Mr. CANTLEY: What about the ice crusher? Is that yours, too?

The CHAIRMAN: Shall we proceed with item 57?

Hon. Mr. STEVENS: Are we still on the first page?

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: I hope my friend Colonel Cantley will not think that I am nagging at the maritimes, but I want to ask a question in regard to the charging up of the deficits and the Freight Rate Act payments. That is charged up to the railway department's estimate?

Mr. HENRY: Brought in in a separate item. There are two items, one for the 20 per cent and the other for the deficits.

Hon. Mr. STEVENS: I am a little curious at the meticulous care with which Sir Henry and his excellent staff seem to fight shy of this maritime situation.

Sir HENRY THORNTON: Well, come on.

Hon. Mr. STEVENS: You are running the show. Why should it not be in the National railway's financing? It is, in fact, of course.

Sir HENRY THORNTON: Because the Act provides otherwise.

Hon. Mr. STEVENS: Why do you show that in the railway department's estimates? You have taken over the maritime railways as part of the National system.

Sir HENRY THORNTON: The Act, as I recall it, provides that we are to be reimbursed.

Hon. Mr. STEVENS: That is for the freight rates. You could be reimbursed and show that in your earnings.

Sir HENRY THORNTON: We think this is the best way to show it.

Hon. Mr. STEVENS: It looks as if you were just segregating the maritime situation—

Mr. CANTLEY: Jabbing it into us.

Hon. Mr. STEVENS: Whether there is any purpose in it or not—

Sir HENRY THORNTON: I do not know that any denial on my part would do any good if there have been any preconceived notions. In our report and financial statement we have tried to show this as it should be shown. I think that fact is generally known throughout the country, and the whole situation is generally known, and we could neither conceal nor expose, even if we wished to do so.

Hon. Mr. STEVENS: Let me illustrate. In the estimates they are asking for \$53,750,000. I submit that you should be asking for \$60,336,000. You can display it as you like, but that is really what we are asking for. That is the amount for the National railways of Canada for next year. The point is—it does not amount to very much, only \$6,500,000, but still it is that—that the public get the idea that the total amount is \$53,000,000, whereas it is \$60,000,000.

Sir HENRY THORNTON: We credit the public with a certain amount of arithmetical knowledge.

Hon. Mr. STEVENS: They have not very much chance to exercise their arithmetical knowledge. The average citizen cannot sit down as we are doing and analyze these statements. For instance, take our report for last year: you report a surplus, which is perfectly true, of \$53,000,000 but on the last page you have summarized the whole thing as \$43,000,000, I think, but the larger figure is the figure the public gets, as the total operating surplus of the road.

Sir HENRY THORNTON: As a matter of fact there is something to be added from the point of view of railway administration. The only figure we are responsible for to the people of Canada, is the gross income, which last year was \$57,500,000. As railway administrators we are not responsible for the Maritime Freight Rates Act; we are not responsible for the capital debt of this company, which was given to us, and which we took as we found it. But we are responsible for that \$57,500,000, and I think, in justice to the administration of the railway which includes all of its officials and men, we are justified in setting forth the accounts as they are set forth. Nothing has been concealed, everything is there. There is no railway, I suppose, on the face of the earth, and certainly no other railway in Canada which gives to its shareholders so complete an exposition of its operations as the Canadian National Railways.

Hon. Mr. STEVENS: I agree with you there; I am not complaining about that.

Sir HENRY THORNTON: I think that is a desirable thing to do.

Hon. Mr. STEVENS: Do not think I am complaining about that. I think the other day, when I was not here, you indulged in some mutual admiration expressions, and I can express a great deal of admiration for you and your staff. But that does not alter the fact that the view the public gets of the situation is not quite the correct thing, so far as the cost to the people of Canada, so far as the cost of operation of this great railway system is concerned.

Sir HENRY THORNTON: I maintain that the figures that are set forth are in accordance with sound and recognized accounting practice.

Hon. Mr. STEVENS: I do not question that; your accounting system is good, but I think your \$6,500,000 of deficits under the Maritime Freight Rates Act and deficits due to other than statutory causes in the Maritimes section should be reflected in the general statement.



Sir HENRY THORNTON: I think, Mr. Stevens, we are presenting this exactly as the Act specifies, and I think if there were to be any alteration in the way in which the facts are presented, there would have to be a change in the Act. Am I right in that, Mr. Henry?

Mr. HENRY: That is right.

Hon. Mr. STEVENS: I am not talking about the way you arrive at your figures; that is statutory, no doubt, but take the figures \$5,373,000, in this estimate, you have the merchant marine and the West Indies, and you should have in here "Deficit on Eastern Lines—\$6,586,000" making a grand total of—whatever it is.

Mr. HENRY: One of the difficulties in that, Mr. Stevens, is this, that about four years ago the government ceased giving to the Canadian National Railways cash advances. The moneys raised for the Canadian National have been by way of government guarantees. Now, if the \$53,000,000 or \$60,000,000 remained in one item, part would have to be cash advances and part of it guarantees. That is why it is set out in this way. The government advances say, \$2,000,000, the deficit incurred in connection with the Maritime Freight Rates Act, and \$4,500,000, the deficit in net income due to other than statutory causes. That is in accordance with Chapter 79 of the Revised Statutes of 1927, which reads as follows:

For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenues and expenses of the Eastern lines, including the reductions herein authorized which shall be borne by the Eastern lines, shall be kept separately from all other accounts respecting the construction, operation or management of the Canadian National Railways.

2. In the event of any deficit occurring in any Railway fiscal year in respect of the Eastern lines the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament for or on behalf of the Canadian National Railways at the first session of Parliament following the close of such fiscal year.

Sir HENRY THORNTON: The Act provides how that is set forth. I do not know any other way to do it.

Hon. Mr. STEVENS: I appreciate that, but the fact remains that \$6,236,000 has to be provided for this year.

Mr. GEARY: It is done deliberately, to keep before the whole of the people all of the time what the Eastern proposition is costing. I suppose that is why it was done.

Sir HENRY THORNTON: I do not know, but I suppose that was it.

The CHAIRMAN: Are there any further questions? Shall we go on with item No. 337, Loan to the Canadian National Steamships—\$969,000?

Mr. GEARY: While you are looking at that, there is nothing in your ordinary first vote which is now passed outside of your usual and ordinary expenditures?

Sir HENRY THORNTON: No.

The CHAIRMAN: Any questions on No. 337?

Sir HENRY THORNTON: Wait a minute, Mr. Chairman. I want to be sure I have this right. There will be the Saskatoon Hotel, which we hope to start on this year.

Mr. GEARY: There is nothing in that about it?

Sir HENRY THORNTON: No. It is on page 18.

Mr. McLEAN (*Melfort*): It is in the western region.

Sir HENRY THORNTON: You are right.

Mr. GEARY: On page 18, you are spending two million odd dollars on hotels?

Sir HENRY THORNTON: That is all right. You are right, Colonel Geary; there is nothing in this that is not disclosed in the analysis you have.

The CHAIRMAN: Any questions on No. 337?

Hon. Mr. STEVENS: A while ago I asked a question of Sir Henry Thornton if the item of \$5,778,715 for hotels and sleeping and dining car department included the Halifax and Vancouver hotels, and I think Sir Henry told us it did.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: I see another item, on page 18, "Hotels, Vancouver and other places \$2,678,125."

Mr. HENRY: That is just a segregation.

Sir HENRY THORNTON: That is a classification of the same thing.

Mr. FAIRWEATHER: It is the same thing, set out in another way.

Sir HENRY THORNTON: It says Additions and Betterments on the Western regions. It is separated, on different divisions.

Mr. GEARY: What are you doing at Jasper?

Sir HENRY THORNTON: We are building another lodge or so, about \$265,000 in new buildings.

Mr. GEARY: Nothing more on the golf course?

Sir HENRY THORNTON: No.

Mr. GEARY: How much has the course cost now?

Sir HENRY THORNTON: I cannot tell you offhand, but you can generally count on a golf course as costing about ten thousand dollars a hole, can you not?

Mr. GEARY: That was all right about fifteen years ago. I was told when I was at Jasper that at one time it was sheer rock. Is that so?

Sir HENRY THORNTON: No, it was covered with the same kind of timber adjoining the course; the soil was particularly good.

Mr. GEARY: Did you have to carry much soil onto the course?

Sir HENRY THORNTON: No, except for the greens.

Mr. GEARY: Somebody told me with great circumstance that freight trains brought that soil there.

Sir HENRY THORNTON: He must have been a C.P.R. man.

Mr. GEARY: No, he was a Vancouver man, I cannot tell what he was.

Sir HENRY THORNTON: As a matter of fact that soil from which the golf course was made was natural soil.

Mr. GEARY: It was what remained after you grubbed all the stumps off?

Sir HENRY THORNTON: No. We put a lot of manure on it.

Mr. McLEAN (*Melfort*): They might have put a load of manure on it.

Mr. GEARY: Drop me a note and tell me what the cost of that course is. Frankly, there is a good deal of talk of extravagance in the system, in establishing that course.

Sir HENRY THORNTON: There will always be criticism of the Canadian National Railways. Every time it tries to do anything at all—I do not mean this personally—but there is a certain element in this country which will invariably criticize the Canadian National for every progressive move it makes. It has been so for the last six years, and I suppose it will continue. Personally I do not care very much about it.

Mr. GEARY: That is natural, in this way; take a private company, only its shareholders are interested; but take a national railway company, and while



pretty nearly everybody pays cash, I know and you know a person who does not, and he says you are spending too much money on the golf course; that is because everybody is interested in the road, and watches what you spend.

Sir HENRY THORNTON: The answer is found in this, that the difference between revenues and net expenses has increased from fifteen million dollars in 1922 to fifty-eight millions last year. It is always advisable to spend money, if you want to make money.

Mr. GEARY: It is the people who find fault with it; it is not attributable to you or anybody else. Take a train that goes down to Komoka, and another train running the same way at the same time; it is an unfortunate state of affairs for which neither of you is responsible. You take the 2.30, you can get a train for Montreal on the two systems.

Sir HENRY THORNTON: It would be advantageous if the companies would pool their passenger services and passenger revenues, but the C.P.R. will not do it.

Mr. GEARY: It looks to an outsider as a pity that that sort of thing is going on.

Sir HENRY THORNTON: You are quite right. Pooling of passenger services in England has been carried to a considerable extent, with great advantage, but there has been very little of it done on the North American continent and in the United States I think I am right in saying that it is prohibited by law.

Mr. McLEAN (*Melfort*): Before leaving Jasper Park, can you tell us what was spent on buildings there last year, if it is convenient, if it is handy—I do not want it otherwise.

Sir HENRY THORNTON: As a matter of fact, going back to the Jasper Park situation, Jasper Park would not be of much value to us without the golf course; indeed any summer resort is not of much value these days without a golf course.

Mr. GEARY: I am not complaining of that. You have a very nice course.

Sir HENRY THORNTON: Our increase in passenger revenue due to Jasper Park was \$550,000 last year. This is an indication of what the facilities bring in the way of travel. Last year there was charged to capital on Jasper Park, \$199,000.

Mr. McLEAN (*Melfort*): That would be for a number of buildings?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Any other questions?

Mr. GEARY: You have got a beautiful place there.

The CHAIRMAN: (Reading).

338. Loan to the Canadian National (West Indies) Steamships, Limited, repayable on demand with interest at a rate to be fixed by the Governor in Council, upon such terms and conditions as the Governor in Council may determine, and to be applied in payment of:—

Deficits in operation of the Company and of the vessels under the Company's control during the year ending December 31, 1929, and interest.

Requirements \$945,000.

Total \$55,664,000.

Sir HENRY THORNTON: That you went over before.

Hon. Mr. STEVENS: That was the West Indies Service.

The CHAIRMAN: Item 339 reads:—

MARITIME FREIGHT RATES ACT					
339	Amount required to provide for payment from time to time during the fiscal year 1929-30 of the difference, estimated by the Board of Railway Commissioners and certified by the said Board to the Minister of Railways and Canals, as and when required by him, occurring on account of the application of the Maritime Freight Rates Act, between the tariff tolls and the normal tolls (referred to in Section 9 of the said Act) on all traffic moved during 1929, under the tariffs approved, by the following companies:— Atlantic Quebec & Western Railway. Canada & Gulf Terminal Railway Canadian Pacific Railway, including Fredericton & Grand Lake Coal and Railway Co. New Brunswick Coal and Railway Company. Cumberland Railway & Coal Co. Dominion Atlantic Railway. Maritime Coal Railway & Power Co. Quebec Oriental Railway Co. Sydney & Louisburg Railway. Temiscouata Railway.....				
		1,050,000 00	1,050,000 00		

Hon. Mr. STEVENS: How do you harmonize that with your \$2,060,000?

Mr. HENRY: This is under the Maritime Freight Rates Act.

Hon. Mr. STEVENS: Oh, I understand that.

Mr. GEARY: Do you happen to remember, Mr. Chairman, the amount paid in respect of the 20 per cent last year?

Mr. HENRY: I have not got that.

Mr. GEARY: That 20 per cent I think would be kept separate. I think, Mr. Stevens, the rest of your argument is good.

The CHAIRMAN: Item 340 reads:—

340	Amount required to provide for the payment from time to time to the Canadian National Railway Company of the deficit in receipts and revenues, occurring during the year 1929, of the Eastern Lines, as provided by the Maritime Freight Rates Act:— (a) Amount of the deficit (less that amount thereof as in the next following paragraph specifically provided for) in the receipts and revenues..... (b) Amount of the deficit in receipts and revenues occurring on account of the reduction in tolls under the application of the Maritime Freight Rates Act....				
		4,526,645 00	4,418,644 50	108,000 50	
		2,060,000 00	1,930,000 00	130,000 00	
		7,636,645 00	7,398,644 50	238,000 50	

Mr. GEARY: That is being paid out of the Consolidated Fund, is it not?

Sir HENRY THORNTON: Yes.



The CHAIRMAN: Carried.

Summary:

Loans to Canadian National Railway Company and Canadian National Steamships.....	55,664,000 00			
Railways—Maritime Freight Rates Act.....	7,636,645 00			
	63,300,645 00			

The CHAIRMAN: Shall the estimates carry?

Mr. GEARY: It means you will have to get so much more this year, assuming it pays as well.

The CHAIRMAN: Carried.

Sir HENRY THORNTON: Does that finish everything now?

Hon. Mr. STEVENS: Just wait a moment. Might I ask, Mr. Chairman, if this concludes the matter before the Committee? I am not saying that we are completely through.

The CHAIRMAN: Altogether.

Hon. Mr. STEVENS: May I ask, then, that if there are any matters, which will not require, for instance, the attention of all the staff, you will call the Committee together again at our request, for instance after we have studied it?

The CHAIRMAN: We will have a field day when we come to consider the report.

Sir HENRY THORNTON: You have everything now before you.

Hon. Mr. STEVENS: There is a great deal of information handed in, some of it of a complicated character.

Sir HENRY THORNTON: We have given you all the information we have.

Hon. Mr. STEVENS: Personally I want to pay a compliment to you, Sir Henry, for the completeness of the information which you have given and for the excellent manner in which your staff has the information at its finger-tips. I think, Mr. Chairman, Sir Henry and his staff are to be congratulated on that feature of it. But I would like to reserve a right to query Sir Henry or some of his officers on some of the major matters, after further thought.

The CHAIRMAN: Then let us say that we will have another meeting to consider the report, and you will have the right to question the officers here as you may think fit. Then we will adjourn sine die to meet at the call of the Chair.

Mr. McLEAN (*Melfort*): Then the officials would not need to be here?

Hon. Mr. STEVENS: Speaking for myself, and not speaking for the others, as far as I am concerned I will try to intimate if I think there are any particular officials who should come. I do not want to trouble the whole staff again. Mr. Henry will be here.

Sir HENRY THORNTON: And you will notify Mr. Henry?

Hon. Mr. STEVENS: Yes, to be sure.

Could we include, Mr. Chairman, before we adjourn, this statement in the record, which is given me in answer to a question asked some time ago.

The CHAIRMAN: Yes.

Hon. Mr. STEVENS:

ANALYSIS OF CONTACT BETWEEN CERTAIN ITEMS APPEARING IN CANADIAN NATIONAL RAILWAYS' BALANCE SHEET AT 31ST DECEMBER, 1928, AND RELATED ITEMS APPEARING IN DOMINION OF CANADA BALANCE SHEET AT 31ST MARCH, 1928

	C.N.R. Balance Sheet	Dominion Balance Sheet		Items not represented in Dominion Balance Sheet at March 31, 1928	
		Items in Net Debt	"Current Assets"		
STOCKS.....	270,256,548 70	10,000,000 00		260,256,548 70	Schedule "K".
GOVERNMENT GRANTS.....	16,730,086 07	15,142,633 34 1,203,208 80		384,243 93	Schedule "J". Railway Subsidies, pp. 44. Subsidies, etc., other than Dominion Sub- sidies.
LONG TERM DEBT.....	977,889,032 94			977,889,032 94	Of this amount \$440,224,185.91 held by the Public is guaranteed by the Dominion See Schedule "V".
DOMINION OF CANADA ACCOUNT— Funded debt unmatured.....	33,048,000 00	33,093,333 23		45,333 23	Schedule "K". Exchange on conversion of Funds to Canadian Currency.
Loans from Dominion of Canada.....	581,864,221 02				Schedule "K".
Canadian Northern Railway.....		255,408,804 28			" " "K".
Grand Trunk Railway.....		118,582,182 33			" " "K".
Grand Trunk Pacific Railway.....		82,958,599 08			" " "K".
Miscellaneous Railway Equipment.....		56,858,496 44			" " "K".
Canadian National Railways.....		54,550,000 00			
Canadian National Railways, Temporary Loans, 1928.....				13,506,138 89	Subsequent to March 31, 1928.
INTEREST ON ABOVE LOANS.....	258,024,307 41			258,024,307 41	
APPROPRIATIONS AMOUNT CANADIAN GOVERN- MENT RAILWAYS.....	417,279,958 48				Schedule "F", less Hudson Bay Railway and Halifax and St. John Harbour proper- ties.
Capital Canadian Government Railways.....		386,442,517 45			Schedule "D" Current Assets.
Open Accounts—Canadian Government Railways.....			6,042,932 52		" " " " "
Stores Account—Canadian Government Railways.....			9,757,420 40		" " " " "
Stores Account—St. John & Quebec Ry.			2,590 94		" " " " "
Open Accounts—			54,022 26		" " " " " Liabilities.



Deficits from January 1, 1921, to March 31, 1923.....	11,925,948 85				Paid from Consolidated Revenue Fund.
Workmen's Compensation payments.....	1,517,082 86				"
Pension Fund payments.....	292,967 11				"
Purchase of Railway equipment, Quebec & Saguenay Railway.....	228,319 89				Included in item of \$57,154,320.71. Schedule "K".
Exchequer Court awards.....				5,728 80	Expended subsequent to March 31, 1928.
Uncashed C.G.R. cheques.....				34,042 72	Credited back by Dominion.
Proportion of cost of Quebec Bridge.....	933,563 97				Paid from Consolidated Revenue Fund.
Prince Edward Island Railway Car Ferry facilities.....				150,860 23	Expended subsequent to March 31, 1928.
	2,555,092,149 62	1,029,137,657 63	15,748,921 60	1,510,205,570 39	

The CHAIRMAN: The Committee adjourns sine die.  
The Committee adjourned to meet again at the call of the Chairman.





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SESSION 1929

HOUSE OF COMMONS

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(SELECT STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

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MINUTES OF PROCEEDINGS AND EVIDENCE

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NO. 9—WEDNESDAY, 29TH MAY, 1929

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CONTAINING THE REPORT OF THE COMMITTEE

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OTTAWA  
F. A. ACLAND  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1929





# REPORTS OF THE COMMITTEE

## THIRD AND FINAL REPORT

THURSDAY, May 30, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its third and final report:—

Your Committee, to which was referred for consideration and for report to the House the estimates on the Canadian National Railways, the Canadian Government Merchant Marine, the Canadian National West Indies Services, and the Maritime Freight Rates Act requirements, held ten meetings in the course of which it examined sundry witnesses, including:—

- Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.;
- R. A. C. Henry, Deputy Minister of Railways and Canals;
- Gerard Rule, K.C., Vice-President of Legal Affairs, C.N.R.;
- S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.;
- A. T. Weldon, Vice-President, Insurance, Colonization and Telegraph Departments, C.N.R.;
- R. C. Vaughan, Vice-President, Purchases and Stores Department, C.N.R.;
- T. H. Cooper, General Auditor, C.N.R.;
- H. T. Hazen, Assistant Chief Engineer, C.N.R.;
- W. U. Appleton, General Manager, Atlantic Region, C.N.R.;
- S. W. Fairweather, Bureau of Economics, C.N.R.;
- C. A. Matthews, of George A. Touche & Company, Chartered Accountants;
- D. C. Grant, Vice-President, Finance Department, C.N.R.;
- D. O. Wood, Acting General Manager, Canadian Government Merchant Marine;
- J. P. Doherty, Traffic Manager, C.N. Steamships.

## CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration Item 336 of the estimates, which provides for loans or guarantees of \$53,750,000 to the Canadian National Railway Company for the year ending December 31st, 1929, these estimates having now for the second time been prepared on the basis of the full calendar year. This coincides with the railway fiscal year and avoids overlapping and the tendency to confusion which existed when the annual report of the railway was on the basis of the calendar year and the estimates on the basis of the federal fiscal year.

Your Committee desires to point out that the annual statements this year are presented in a modified form, designed to meet suggestions by members of the Committee during its deliberations last year.

These modifications consist of the inclusion under one cover of the operating results of the Canadian National Railways exclusive of Eastern Lines, and of the Eastern Lines as defined under the Maritime Freight Rates Act, instead of the presentation of separate reports under separate covers as was done last year.

The annual report itself was divided into three sections as follows:—

1. That containing the result of operations of the Canadian National Railways exclusive of the Eastern Lines.
2. That containing the result of operations of the Eastern Lines as defined by the Maritime Freight Rates Act.
3. A summary showing the income account of the system as a whole including Eastern Lines.

Your Committee notes that the operating results for the year 1928 were much more favourable than those of the previous year, due to the larger crop and earlier harvest which permitted a large proportion of the 1928 crop to be moved during that year; the late harvest and inclement weather conditions in the fall of 1927, which threw a large percentage of the 1927 crop movement into 1928; and to increase in freight tonnage generally, and increase in the average haul, and an improvement in operating conditions made effective during the year.

Your Committee called as a witness Mr. C. A. Matthews of the firm of George A. Touche and Company, Chartered Accountants, who, for some years, have been engaged in making a continuous audit of the accounts of the company in order to enable them to certify as to the correctness of the consolidated balance sheet and income accounts as presented in the annual report. From Mr. Matthews' evidence it appears that Messrs. George A. Touche and Company are entirely satisfied that the accounts as presented are in accordance with recognized practice in railway accounting, and that they reflect accurately the revenues received and expenditures made during the year, as well as additions to capital account.

Your Committee gave some consideration to the question of temporary financing. Officers of the railway explained that this temporary financing was strictly in accordance with the provisions of the Appropriation Act, and had been undertaken because market conditions were not favourable to a bond issue. Such temporary financing had been arranged through the chartered banks of Canada at very favourable rates, and in the opinion of the railway management, gave no cause for concern.

Your Committee notes that the estimates for the present year, exclusive of Eastern Lines, amount to \$53,750,000 as compared with \$39,000,000 for 1928. The additional requirements are due to an increase in the amount of capital retirements of Canadian National Railways, Central Vermont Receivership Certificate Retirements, and an increase in general additions and betterments due to expanding business. In view of the explanations given, your Committee is of the opinion that this amount is necessary for the purpose of the Company for the coming year and should be voted by this House.

### CANADIAN NATIONAL WEST INDIES SERVICES

Your Committee also had under consideration Item 338, loan to the Canadian National (West Indies) Steamships, Limited, whose steamships provide the services called for by the West Indies Trade Agreement. Your Committee is informed that there has been considerable competition for this business and a tendency to lower rates, and that the first year's operations may therefore not be quite as satisfactory as anticipated. Your Committee is of the opinion that the amount asked—\$945,000—is necessary for the requirements of this service in accordance with treaty obligations and should be voted.



## CANADIAN GOVERNMENT MERCHANT MARINE

Your Committee also had under consideration Item 337 of the estimates—loan to the Canadian National Steamships (Canadian Government Merchant Marine, Limited)—to be applied in payment of deficits in operation of the Company and of the vessels under the Company's control during the year ending December 31, 1929, and capital requirements, amounting in all to \$969,000. Your Committee examined the report of operations for the year ending December 31, 1928, and notes that the results have not been quite as favourable as those of the previous year, due to the highly competitive situation which resulted in the reduction of freight rates in certain directions with a resultant reduction in gross revenues. Your Committee also reviewed the balance sheet of the Company and notes that the capital structure includes vessels at their original cost, whereas the present day value of this type of vessel is much below that at which the existing vessels are carried in the balance sheet. In view of this, your Committee is of the opinion that the Government should give early consideration to the writing down of the capital structure of the Merchant Marine to a point more in keeping with the present actual value of the vessels. Your Committee is of the opinion, on the evidence adduced, that the amount of \$969,000, included under Item 337 of the estimates, is required for the purposes of the Company and should be granted by this House.

## MARITIME FREIGHT RATES ACT

Your Committee has had under consideration Item 340 of the estimates, to provide for the payment to the Canadian National Railway Company, as required by the Maritime Freight Rates Act, of the deficit in receipts and revenues, incurred during 1929, on Eastern Lines, the amount of the estimated deficit being \$4,526,645, and in addition a sum of \$2,060,000, representing the estimated amount by which the revenues of the Eastern Lines will be lessened during the coming year by the reduced rates granted under the Maritime Freight Rates Act in accordance with the recommendations of the Duncan Commission. By reason of the special considerations involved in the Maritime Railway situation, with which the House is familiar, your Committee is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House.

Your Committee has also had under consideration Item 339, to provide the sum of \$1,050,000 from which privately owned railways operating in territory covered by the Maritime Freight Rates Act shall be reimbursed the difference between normal tolls and the special tolls provided by that Act. Your Committee is of the opinion that this amount is necessary to implement the provisions of the Act in that regard and should be granted by this House.

A copy of the evidence taken by your Committee is appended.

All of which is respectfully submitted.

EUGENE FISET,  
*Chairman.*

Presented, 30th May, 1929. Concurred in, same day.

## MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

WEDNESDAY, May 29, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.30 a.m. Sir Eugene Fiset, the Chairman, presided.

*Members present:* Messrs. Duff, Dunning, Gray, Jelliff, McLean (Melfort), Milne, Stevens.

*In attendance:* Sir Henry Thornton, with members of his staff; also Mr. R. A. C. Henry Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Answers were submitted in reply to a series of questions previously put by Hon. Mr. Stevens. These questions and answers are contained in the printed record of to-day's proceedings.

Copies of a draft final report of the Committee were distributed, to which the Committee proceeded to give consideration.

After discussion, it was agreed to present to the House a Third and Final Report, a copy of which appears in No. 9 of the printed Minutes of Proceedings and Evidence.

The Committee adjourned.

JOHN T. DUN,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

COMMITTEE ROOM 375,

HOUSE OF COMMONS,

WEDNESDAY, May 29, 1929.

The Select Standing Committee on Railways and Shipping met at 10.30 o'clock a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: At the last meeting Mr. Stevens asked a series of questions. I think the answers have been handed to him, and it is his desire that they be placed in the records of the Committee.

Hon. Mr. STEVENS: I will not bother to review them, but I want to say that apparently Sir Henry and his staff have handled the matter very satisfactorily, and they may be spread on the records as they are. So far as I am concerned, I am content.

*Question 1.* On page 6 of the "estimated Financial Requirements 1929" appears details of estimated sinking fund payments 1929, including eight separate issues with a total amount of "estimated sinking fund payments 1929" of \$1,044,801.47. Is this the total amount of sinking fund set aside for the retirement of securities (other than Equipment Bonds) for the year 1929, and are the securities named in this statement the only securities in relation to which the sinking fund is set up?

*Answer.* Yes, but the correct amount is \$1,041,801.47.

*Question 2.* On page 7 of the "Estimated Financial Requirements 1929" appears a statement of nine series of Equipment Notes showing a total amount "estimated equipment principle payments 1929" of \$6,316,400.

(a) Is this sum included in the estimate for the year 1929-30 of \$53,750,000?

(b) Will the sum of \$53,750,000 be raised by the issue of new C.N.R. securities?

(c) Are the items on page 7 the regular instalments of the Equipment Bond series set forth therein?

*Answer.* (a) Yes. (b) Yes. (c) Yes.

*Question 3.* On page 28 of the "Estimated Financial Requirements 1929" appears an item of \$720,000 entitled estimated discount on securities to be issued in 1929, 15-year  $4\frac{1}{2}$  per cent Equipment Trust series "K". Will this item be included in the \$53,750,000 provided in the estimates, and if so, will this also be paid from the proceeds of the new issue of C.N.R. Securities?

*Answer.* Yes.

*Question 4.* In the statement filed entitled "details of new issues six years to December 31, 1928" appears a total figure of \$284,663,256.60. How much of the proceeds of this grand total of new issues for the six-year period has been used for the retirement of maturing Equipment Trust Bonds or for the meeting of periodical instalments thereon?

*Answer.* The total Equipment Principal payments made during the six-year period was \$41,891,400, which includes \$10,800,000 paid into Sinking Funds on account of Series "E" and Series "F".

SELECT STANDING COMMITTEE

BRANCH LINE PROGRAM

- 1. Will you please give a list of the last three year Branch line Program, with the amount estimated to be spent in each case?
- 2. The amount already raised and spent with respect to each Branch Line?
- 3. The amount estimated required to complete the project in each case?

Answer to No. 1	—	Answer to No. 2	Answer to No. 3
List of Branches	Estimated to spend	Amount spent (to Dec. 31, 1928)	Estimated to complete
	\$	\$	\$
St. Felicien-Mistassini River.....	1,463,000	1,365,018 20	20,000
Grand'Mere—East Burrills.....	1,683,000	1,711,645 86	600,000
Weyburn-Radville.....	570,000	626,982 92	Line complete
Willowbrook, N.W.....	616,000	438,064 01	175,000
Sturgis-Peesane.....	3,395,000	1,868,618 42	1,425,000
Peesane Northerly.....	570,000	109,415 25	460,000
Shellbrook Westerly.....	2,480,000	1,267,855 86	1,200,000
Turtleford S.E. from M. 67.....	1,130,000	762,236 50	175,000
Kindersley-Glidden.....	640,000	363,137 96	200,000
Spruce Lake Westerly.....	990,000	935,686 58	55,000
Hudson Bay Jet. Southerly.....	1,088,000	404,542 99	680,000
Elk Point Easterly.....	745,000	605,540 82	135,000
Ashmont-Bonnyville.....	1,415,000	1,191,608 04	125,000
Bretona-Clover Bar.....	319,000	317,529 67	10,000

- 4. A statement of the three year program provided for this year, including the purchase of existing railways, showing the amount in each case, and the amount estimated to be required for each year?

Answer.

Proposed New Lines.	Estimated Cost
Lake Verde-Pisquid.....	370,000
Sunny Brae-Guysborough.....	3,500,000
Brantford Cut-off.....	1,350,000
Carson Spur Extension.....	185,000
Sudbury Basin Branch.....	1,850,000
Melfort-Aberdeen.....	2,800,000
Central Butte Southwesterly.....	1,800,000
Neidpath-Swift Current.....	1,200,000
Ridgedale Easterly.....	1,100,000
Unity Southwesterly.....	1,750,000
Hamlin-Glenbush.....	1,150,000
St. Walburg-Bonnyville.....	4,212,000
Alliance Southeasterly.....	2,952,000
Bulwark Easterly.....	875,000
Hemaruka-Scapa.....	1,435,000
Swift Creek-Tete Jaune.....	720,000
Lulu Island.....	1,500,000

Estimates of Expenditures for each of the three years have not as yet been made.

Railways Purchased.	Purchase Price
Inverness Coal and Railway Co.....	\$ 375,000
Kent Northern Railway.....	60,000
{Quebec Oriental Railway.....	
{Atlantic, Quebec & Western Railway.....	3,500,000
(a) Saint John and Quebec Railway.....	6,000,000
(b) Alberta Government Railway.....	7,790,000
Quebec, Montreal and Southern Railway.....	6,000,000

St. John and Quebec Railway

(a) No immediate cash payment, but assumption of Debenture Stock \$2,727,977.40 and balance to be applied in payment at maturity of Provincial Debentures.

Alberta Government Railways

(b) This amount is in cash spread over three payments. In addition there is assumption of \$7,000,000 First Mortgage Debenture Stock and \$2,240,000 First Mortgage Gold Bonds, half of which is applicable to the Canadian National.



The cash payment of \$7,790,000 (the Canadian National share of the purchase price of \$15,580,000) is payable in instalments as follows: \$2,500,000 on delivery of possession, \$2,500,000 on June 1, 1933, and \$2,790,000 on June 1, 1939.

*Other Railways to be Acquired*

Payment in other cases will be made as provided by the several bills when vendors are in a position to give deeds free of all encumbrances.

*Question 5.* On the statement filed entitled "Retirement of funded debt six years to December 31, 1928" appears an item under year 1925 entitled Montreal Warehousing Company Bonds \$864,000.

(a) What are the names of the officers of this company.

*Answer.* (a) Sir Henry W. Thornton, President, Mr. D. E. Galloway, Vice President, Arthur Wilson, Secretary, G. F. Ancrum, Treasurer.

Q. (b) The capital stock of the company, and by whom controlled?

A. (b) Capital Stock of the company is \$236,000 and the company is controlled by the Canadian National Railways.

Q. (c) Has the company been re-organized recently?

A. (c) No.

Q. (d) The total amount of bonds outstanding?

A. (d) Total amount of bonds outstanding in the hands of the public—\$6,000.

Q. (e) The total assets of the company?

A. (e) \$3,785,802.76 as per Balance Sheet December 31, 1928, attached.

Q. (f) How were the aforementioned bonds acquired and for what purpose? and when did the said bonds mature?

A. (f) The bonds were acquired in the open market, as we found it profitable to do so. The bonds in question mature on April 1, 1936.

Q. (g) Are the said bonds in default in any respect as regards interest or principal?

A. (g) No.

*Question 6.* In respect to the \$40,000,000 borrowed from the Banks as stated in the President's Report on page 8 of the Annual Statement:

(a) When this sum was borrowed from the Banks what arrangement, if any, was made between the Minister of Railways, the Minister of Finance, the Banks and the Railway Company for the financing of the said \$40,000,000?

*Answer.* (a) The Railway Company agreed with the Banks that the \$40,000,000 in question would be repaid to them out of the proceeds of an issue of securities to be made by the Railway when the time is considered opportune to make such an issue.

Q. (b) Was any special arrangement made for the issue to the Banks under the Finance Act of legal tenders in connection with the said loan, and, if so, how much?

A. (b) No.

#### HUDSON BAY RAILWAY

*Question 1.* Were tenders called for construction work on the Hudson Bay Railway during the past three years?

*Answer.* Yes.

*Question 2.* How many tenders were received, and what was the figure in each instance?

*Answer.* Seven. \$1,270,100; \$1,377,700; \$1,388,300; \$1,496,550; \$1,836,150; \$1,-\$855,450; \$1,899,100.

Question 3. If the lowest tender was not accepted please give the reasons?

Answer. Lowest tender accepted.

Question 4. What portion of the work is being done by day labour? Or what portion on a cost plus basis, and if so, by whom is such work being performed?

Answer. Bridges, and culverts, telegraph line, tracklaying, ballasting, rehabilitation, etc., being done by the Canadian National Railway forces. No portion of the work let on cost plus basis.

Question 5. How much money has been expended on the Hudson's Bay Railway in each of the years 1923 to December, 1928, inclusive?

Answer. See attached statement.

Question 6. How much money has been expended at Fort Churchill in each of the years 1923 to December, 1928, inclusive?

Answer. See attached statement.

Question 7. What is the total amount spent on the Hudson's Bay Railway, Fort Churchill and Port Nelson to date?

Answer. See attached statement.

Question 8. What amount is estimated to be required to complete the works and undertaking and make them ready for the shipment of grain and other cargo?

Answer. The amount given as the cost of the completed works by Mr. Frederick Palmer is \$7,860,613. No further estimate has been made.

Question 9. What amount is estimated to be required to provide suitable ships to make an economic demonstration of the Hudson's Bay route to Europe, and how many ships will be required and their estimated cost?

Answer. This aspect of the situation is being given attention, but definite conclusions have not yet been reached.

THE MONTREAL WAREHOUSING COMPANY

Balance Sheet at December 31, 1928

ASSETS

701	Property Accounts.. . . . .		\$ 352,784 60
706C	Canadian National Railways.. . . . .		870,723 73
706D	Canadian National Realties.. . . . .		914,591 44
707	Dominion of Canada Bonds.. . . . .		1,501,983 58
708	Cash.. . . . .		7,774 85
715	Accounts Receivable.. . . . .		14,943 78
717	Interest Receivable—C.N. Realties .. . . .	\$ 9,940 00	
	C.N.R.. . . . .	16,972 48	
	Victory Bonds.. . . . .	16,343 07	
			43,255 55
723	Rent Paid in Advance.. . . . .		336 67
727	Unadjusted Debits—C.N. Realties .. . . .		79,408 56
			\$3,785,802 76

LIABILITIES

751	Capital Stock—Held by C.N.R.. . . . .	\$221,100 00	
	“ “ Public.. . . . .	14,900 00	
			236,000 00
755	Funded Debt—Held by C.N.R.. . . . .	\$994,000 00	
	“ “ Public.. . . . .	6,000 00	
			1,000,000 00



LIABILITIES—*Concluded*

757	Canadian National Railways Advances.. . . .	1,045 02
760	Miscellaneous Accounts Payable.. . . .	8,994 98
766	Unmatured Interest Accrued.. . . .	10,000 00
771	Tax Liability.. . . .	2,721 32
775	Accrued Depreciation.. . . .	117,313 16
	Appropriated Surplus:	
	770 Proportion due Minority Shareholders. 152,483 33	
	783 Proportion due C.N.R. . . . .	2,262,687 59
		<hr/>
		2,415,170 92
		<hr/>
		\$3,785,802 76

## CHATEAU LAURIER

What has been the total cost of the Chateau Laurier, as shown in the books of the company?

*Question**Answer*

- (a) Cost of land? \$100,000 (1909) for original bldg.
- (b) Cost of old building? \$2,608,000.
- (c) Cost of new wing now being constructed? \$4,671,082.49 spent to March 31, 1929.
- (d) Estimated further amount to complete? \$1,328,917.51.
- \$6,000,000 total cost new wing, including equipment and furnishings, of which  
\$5,300,000 is chargeable to capital.  
\$ 700,000 is chargeable to operation.
- (e) Cost of equipment, furnishings, etc. \$950,000, which is included in (c) and (d) above.

STATEMENT showing the amount of Expenditure made by the Department of Railways and Canals on the Hudson Bay Railway and Fort Churchill Terminal, fiscal years 1923 to 1928 inclusive, together with Total Expenditure to date on Hudson Bay Railway, Fort Churchill and Port Nelson Terminals.

	Hudson Bay Railway	Fort Churchill Terminal	Port Nelson Terminal	Total
Total expenditure from commencement to fiscal year 1922, inclusive..	14,467,583 89		6,189,989 96	20,657,573 85
Fiscal year, 1923.....	40,118 21		27,802 56	67,920 77
" 1924.....	322,279 10		24,621 93	346,901 03
" 1925.....	294,158 48		2,184 04	296,342 52
" 1926.....	173,334 35		18,103 24	191,437 59
" 1927.....	2,808,549 31	17,307 46	11,880 91	2,837,737 68
" 1928.....	2,674,224 57	880,643 30	364 76	3,554,503 11
" 1929.....	3,389,084 88	2,770,478 07		6,159,562 95
" 1930.....	297,150 49	22,710 21		319,860 70
(to April 30, 1929)				
Total expenditure from commencement to April 30, 1929.....	\$24,466,483 28	\$3,691,139 04	\$6,274,217 88	\$34,431,840 20

Prepared, Audits Branch, Dept. Railways & Canals, 18/5/29.

The CHAIRMAN: I think every member of the Committee has a copy of the proposed final report. Is it the desire of the Committee that I should read the report item by item?

Hon. Mr. STEVENS: I do not want to insist on that, but there are one or two questions I would like to ask.

Hon. Mr. DUNNING: I suggest that apart from the preamble, we might read each section as something might occur to a member of the Committee as we go along. It is rather important.

The CHAIRMAN: (Reading)

### THIRD AND FINAL REPORT OF THE SELECT STANDING COMMITTEE ON RAILWAYS AND SHIPPING OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its third and final report:

Your committee, to which was referred for consideration and for report to the House the estimates on the Canadian National Railways, the Canadian Government Merchant Marine, the Canadian National West Indies Services, and the Maritime Freight Rates Act requirements, held ten meetings in the course of which it examined sundry witnesses including:—

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.

R. A. C. Henry, Deputy Minister of Railways and Canals.

Gerard Rule, K.C., Vice-President of Legal Affairs, C.N.R.

S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.

A. T. Weldon, Vice-President, Insurance Colonization & Telegraph Departments, C.N.R.

R. C. Vaughan, Vice-President, Purchases and Stores Departments, C.N.R.

T. H. Cooper, General Auditor, C.N.R.

H. T. Hazen, Asst. Chief Engineer, C.N.R.

W. U. Appleton, General Manager, Atlantic Region, C.N.R.

S. W. Fairweather, Bureau of Economics, C.N.R.

C. A. Matthews, of George A. Touche & Company, Chartered Accountants.

D. C. Grant, Vice-President, Finance Dept., C.N.R.

D. O. Wood, Acting General Manager, Canadian Government Merchant Marine.

J. P. Doherty, Traffic Manager, Canadian National Steamships.

#### CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration Item 336 of the estimates, which provides for loans or guarantees of \$53,750,000 to the Canadian National Railway Company for the year ending December 31, 1929, these estimates having now for the second time been prepared on the basis of the full calendar year. This coincides with the railway fiscal year and avoids overlapping and the tendency to confusion which existed when the annual report of the railway was on the basis of the calendar year and the estimates on the basis of the federal fiscal year.

Your committee desires to point out that the annual statements this year are presented in a modified form, designed to meet suggestions by members of the committee during its deliberations last year. These modifications consist of the inclusion under one cover of the operating results



on the Canadian National Railways exclusive of Eastern Lines, and of the Eastern Lines as defined under the Maritime Freight Rates Act, instead of the presentation of separate reports under separate covers as was done last year.

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1. That containing the result of operations of the Canadian National Railways exclusive of the Eastern Lines.
2. That containing the result of operations of the Eastern Lines as defined by the Maritime Freight Rates Act.
3. A summary showing the income account of the system as a whole including Eastern Lines.

Your committee notes that the operating results for the year 1928 were much more favourable than those of the previous year, due to the larger crop and earlier harvest which permitted a large proportion of the 1928 crop to be moved during that year; the late harvest and inclement weather conditions in the fall of 1927, which threw a larger percentage of the 1927 crop movement into 1928; and to increase in freight tonnage generally, and increase in the average haul, and an improvement in operating conditions made effective during the year.

Your committee called as a witness Mr. C. A. Matthews of the firm of George A. Touche and Company, Chartered Accounts, who for some years, have been engaged in making a continuous audit of the accounts of the company in order to enable them to certify as to the correctness of the consolidated balance sheet and income accounts as presented in the annual report. From Mr. Matthews evidence it appears that Messrs. George A. Touche and Company are entirely satisfied that the accounts as presented are in accordance with recognized practice in railway accounting, and that they reflect accurately the revenues received and expenditures made during the year, as well as additions to capital account.

Your committee gave some consideration to the question of temporary financing. Officers of the railway explained that this temporary financing was strictly in accordance with the provisions of the Appropriation Act, and had been undertaken because market conditions were not favourable to a bond issue. Such temporary financing had been arranged through the chartered banks of Canada at very favourable rates, and, in the opinion of the railway management, gave no cause for concern.

Sir HENRY THORNTON: I might say that since that was written \$18,000,000 of equipment trust was put out, and the indications seem to be that we are going to have very little, if any, serious trouble during the year and the relatively near future in disposing of the accumulation of temporary financing which we have.

Hon. Mr. STEVENS: Your market is getting better.

Sir HENRY THORNTON: Yes.

The CHAIRMAN: (Reading)

Your committee notes that the estimates for the present year, exclusive of Eastern Lines, amount to \$53,750,000 as compared with \$39,000,000 for 1928. The additional requirements are due to an increase in the amount of capital retirements of Canadian National Railways, Central Vermont Receivership Certificate retirements, and an increase in general additions and betterments due to expanding business. In view of the explanations given, your committee is of the opinion that this amount is necessary for the purpose of the company for the coming year and should be voted by this House.

## SELECT STANDING COMMITTEE

## CANADIAN NATIONAL WEST INDIES SERVICES

Your Committee also had under consideration Item 338, Loan to the Canadian National (West Indies) Steamships, Limited, whose steamships provide the services called for by the West Indies Trade Agreement. Your committee is informed that there has been considerable competition for this business and a tendency to lower rates, and that the first year's operations may therefore not be quite as satisfactory as anticipated. Your committee is of the opinion that the amount asked—\$945,000.00—is necessary for the requirements of this service and should be voted.

Hon. Mr. STEVENS: There is just one suggestion. Would it not be better to say "Is necessary for the requirements of this service and to discharge treaty obligation"? Is that not a fact?

Sir HENRY THORNTON: Yes, undoubtedly.

The CHAIRMAN: There is no objection to that.

Hon. Mr. DUNNING: It is a fact.

Hon. Mr. STEVENS: What I am getting at is that when you vote the \$945,000 simply for the requirements of the service, it sounds as if we were simply voting the money because it was asked; but it is necessary for this service, in order to discharge our treaty obligations with the West Indies and for the carrying out of our part of the West Indies treaty.

Hon. Mr. DUNNING: The only objection I see—if it is an objection—is the fact that the treaty obligation could be carried out in another way, by subsidizing steamships. I forget the bids we had when we endeavoured to deal with it in that way, but they were higher than this amount, if my memory serves me right.

Sir HENRY THORNTON: It makes a better picture.

Hon. Mr. DUNNING: I have no objection to putting that in.

Sir HENRY THORNTON: I think it makes a better picture. As a matter of fact, it is an absolutely correct statement, because the genesis of this whole thing is the treaty.

The CHAIRMAN: (Reading)

## CANADIAN NATIONAL WEST INDIES SERVICES

Your Committee also had under consideration Item 338, Loan to the Canadian National (West Indies) Steamships, Limited, whose steamships provide the services called for by the West Indies Trade Agreement. Your committee is informed that there has been considerable competition for this business and a tendency to lower rates, and that the first year's operations may therefore not be quite as satisfactory as anticipated. Your committee is of the opinion that the amount asked—\$945,000—is necessary for the requirements of this service (in accordance with treaty obligations) and should be voted.

## CANADIAN GOVERNMENT MERCHANT MARINE

Your Committee also had under consideration Item 337 of the estimates—Loan to the Canadian National Steamships (Canadian Government Merchant Marine, Limited) to be applied in payment of deficits in operation of the company and of the vessels under the company's control during the year ending December 31, 1929, and capital requirements, amounting in all to \$969,000. Your committee examined the report on operations for the year ending December 31, 1928, and notes that the results have not been quite as favourable as those of the previous year,



due to the highly competitive situation which resulted in the reduction of freight rates in certain directions with a resultant reduction in gross revenues. Your committee also reviewed the balance sheet of the company and notes that the capital structure includes vessels at their original cost, whereas the present day value of this type of vessel is much below that at which the existing vessels are carried in the balance sheet. In view of this your committee is of the opinion that the government should give early consideration to the writing down of the capital structure of the Merchant Marine to a point more in keeping with the present actual value of the vessels. Your committee is of the opinion, on the evidence adduced, that the amount of \$969,000, included under Item 337 of the estimates, is required for the purposes of the company and should be granted by this House.

Hon. Mr. STEVENS: There is just one question I would like to ask Sir Henry Thornton. It is with regard to the Australian service. I notice that advertisements are out by the Trade and Commerce Department for tenders to put on a freight service between Vancouver and Pacific coast points and Australia a service which up to some months ago was carried on by the Canadian Government Merchant Marine. Are you going to tender for that?

Sir HENRY THORNTON: I must admit I have not received that advertisement.

Hon. Mr. STEVENS: I received a copy in the mail from some source, I presume a matter of courtesy on the part of the Department.

Sir HENRY THORNTON: That may be. I have been away so much lately, but I would not be surprised if it had come into the office and been sent to the Merchant Marine for an opinion.

Hon. Mr. STEVENS: If we are paying subsidies, if we can pay them to the Canadian Government Merchant Marine and thus overtake any handicap under which you are labouring, it will be better than to give this to outside companies.

Sir HENRY THORNTON: That is right.

Mr. DUFF: Is there not a subsidy now for Australia?

Hon. Mr. STEVENS: There is the regular mail subsidy. That is, of course, a fast passenger service—a very fine service. There are two vessels, the *Auriniga* and the *Niagara*. Now they are calling for tenders for a freight service.

Sir HENRY THORNTON: It may be that we have not the ships. I do not know offhand. I will have to look into it.

Hon. Mr. STEVENS: Let me say this: it was very deeply appreciated by all the shippers on the coast—the service you did give with these very ships. It seemed to be entirely satisfactory.

Hon. Mr. DUNNING: It was not very profitable.

Hon. Mr. STEVENS: I understand that it was not profitable; therefore it was stopped. Now the government proposes giving a subsidy to someone, and I suggest that it should be to the Canadian Government Merchant Marine.

Sir HENRY THORNTON: Mr. Dunning reminds me that Hon. Mr. Malcolm did say something about it, but I cannot recall it. I will have to look into it.

Hon. Mr. STEVENS: It should be paid to the Canadian Government Merchant Marine, if possible.

Mr. DUFF: If they have the ships.

Hon. Mr. DUNNING: I might say that Mr. Malcolm always does discuss with me and with Sir Henry Thornton and his officers any move which is under contemplation with respect to subsidies.



Hon. Mr. STEVENS: There are one or two things to keep in mind. First, there is the very large quantity of goods going from Canada, particularly from eastern Canada, consisting of automobiles, automobile parts, and machinery of various kinds, being shipped to Australia. It goes across on the Transcontinental lines and it is good business for both the Canadian railways and the manufacturing interests of Canada. Secondly, there is a big lumber business.

The United States government is now subsidizing ships from the Pacific coast to carry lumber to Australia in competition with our British Columbia lumbermen. That is a big business, and naturally we on the coast are anxious to keep all that business that we can, and if by subsidizing, such as the Trade and Commerce Department proposes, or through the Canadian Government Merchant Marine, or the two combined, we can get that service, it will be in the interests of the country at large.

Sir HENRY THORNTON: Sure.

Hon. Mr. STEVENS: I just wanted, while we were discussing that clause, to bring that to the attention of Sir Henry Thornton so that his officers might get in touch with the Department of Trade and Commerce and go into it with some care.

The CHAIRMAN: (Reading)

#### MARITIME FREIGHT RATES ACT

Your committee has had under consideration Item 340 of the estimates, to provide for the payment to the Canadian National Railway Company, as required by the Maritime Freight Rates Act, of the deficit in receipts and revenues, incurred during 1929, on Eastern Lines, the amount of the estimated deficit being \$4,526,645, and in addition, a sum of \$2,060,000 representing the estimated amount by which the revenues of the Eastern Lines will be lessened during the coming year by the reduced rates granted under the Maritime Freight rates Act in accordance with the recommendations of the Duncan Commission. By reason of the special considerations involved in the Maritime Railway situation, with which the House is familiar, your committee is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House.

Your committee has also had under consideration Item 339 to provide the sum of \$1,050,000 from which privately owned railways operating in territory covered by the Maritime Freight Rates Act shall be reimbursed the difference between normal tolls and the special tolls provided by that Act. Your committee is of the opinion that this amount is necessary to implement the provisions of the Act in that regard and should be granted by this House.

Hon. Mr. STEVENS: May I go back to the preceding paragraph, the last sentence: "By reason of the special considerations involved in the maritime railway situation, with which the House is familiar, your Committee is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House." Is that correct? What is necessary to give effect to the Maritime Freight Rates Act is \$2,060,000.

Hon. Mr. DUNNING: The other item is specifically called for by the terms of the Maritime Freight Rates Act.

Hon. Mr. STEVENS: The deficit?

Hon. Mr. DUNNING: Yes.

Hon. Mr. STEVENS: Quite right, one is the 20 per cent reduction and the other is the deficit.



The CHAIRMAN: Are there any comments on the report?

Sir HENRY THORNTON: There is just one other point, which will be probably a matter of comfort to the Committee as it is to myself, that our net earnings for this year are showing a net increase of about 18 per cent over last year. And, having regard to the fact that last year was an exceptionally good year, it will be perhaps a better performance than appears on the face of it. And the indications this year are that the crop for this year will not be a failure. So that I look forward with a good deal more confidence to our financial results for this year than I did three months ago.

Hon. Mr. STEVENS: That is comforting.

The CHAIRMAN: Shall the report carry?

Carried.

Thank you very much, gentlemen, for your attendance and support.

The Committee adjourned.



